Faculty Senate Chair

Report

November 7, 2018

The University of Louisville's Phi Kappa Phi status is currently suspended. To reactivate the status of the chapter, the University is seeking four faculty members to volunteer to help rebuild chapter by serving as President, Vice-President, Secretary and Treasurer. These faculty are not required to be Phi Kappa Phi past or current members. For more information about Phi Kappa Phi visit: http://www.phikappaphi.org/home

Communication: Communication is key to shared governance, transparency and the overall "academic health" of the University. To help support communication efforts across the University, please share the meeting notes from each Faculty Senate meeting with unit faculty. Gretchen Henry will send out monthly meeting notes along with a link to the Faculty Senate Webpage which will house additional committee reports/information. Thank you for your help in communicating this important information.

HR announced a new thirty day waiting period for new employees, scheduled to begin January 1, 2019, as well as the elimination of the two employee health insurance rate package for new hires. After further evaluation, HR has announced that benefit coverage for new hires will begin immediately on the hire date, and the two employee health insurance rate will continue for new hires.

The Board of Trustees met on October 18th for a regular quarterly meeting. Keith Sherman presented a summary regarding the refinancing of university dorms: Minardi Hall, Community Park, Kurz Hall and Bettie Johnson Hall. Minardi is debt free; Community Park owes the Foundation $12.8M; Kurz and Johnson have bond financing. ULH will be refinancing the three dorms. The new loan will save approximately $380k per year in financing costs. Regarding Minardi Hall, its ground lease provides that upon termination, the dorm automatically becomes the property of UofL. ULH wishes to terminate the ground lease, and Minardi will become a UofL asset; it is appraised at $4.45M.

On October 29th Dan Durbin presented the following highlights regarding Financial Results for FY 2018:

- The university's financial position remains strong as of June 30, 2018 with total assets and deferred outflows of $1.3 billion
- Net position for FY 2018 was $707.7 million and grew by $3 million before restatement of opening net position related to GASB 75.
- Net position improved by $38.7 million from prior year after excluding capital revenues and nonrecurring one-time events.
- Total revenues decreased as a result of one-time revenues recognized in FY17 related to Kentucky One Health Strategic Partnership funds
- Total expenses including interest decreased by $36.4 million led by Salaries and Wages and Supplied due to budget management program

CliftonLarsonAllen Wealth Advisors, LLC, presented Audit results, highlighting:

- Financial statement audit opinion is unmodified "cleanest opinion"
- Two deficiencies reported on internal controls over financial reporting for approval of timesheets and lack of supporting audit documentation
    - Both are being evaluated by the University
- Federal awards audit opinions are unmodified, identified one significant deficiency in internal control over compliance due to controls over exit counseling
    - A correction plan is now in place

Trustees Award: On behalf of the entire Board of Trustees

> Know a faculty member who has had an extraordinary impact on students? Give them the gift of peer recognition through a nomination for the 2018 Trustees Award. The prize is for faculty (or groups of faculty) who have raised the bar when it comes to helping students. The deadline is December 1. Please help spread the word about this important university award. Winner(s) will receive $5000 and are recognized at commencement. http://louisville.edu/president/board-of-trustees/trustees-award

The University of Louisville Real Estate Foundation, Inc. Board of Directors met Tuesday, October 30, 2018. Properties are performing well and are in good shape. Governance documents are being revised and are targeted to be completed by January 2019.

The University Of Louisville Foundation Board Of Directors met Tuesday, October 30, 2018. The following key financial observations are noted:

- Endowment Assets have increased $6 million
- Gift cash received was $4.3 million. $1.2 million was endowed; $3.1 million was for expendable gifts
- Spending sourced from the endowment to support the University is on plan.
- Foundation operating expenses are comparable to plan.

In President Bendapudi's October 22, 2018 message to the campus community she highlights the following:

- UofL has won awards and recognition as one of the voter friendly campuses both from NASPA and the Vote Campus Project
- The Envirome Institute received more than $16 million in federal grants
- Strategic Planning will being Spring 2019

To help discuss and provide feedback regarding ongoing and future bookstore issues, the Bookstore Advisory Council is a new committee with representation from students, staff and faculty across campus and will work closely with Business Operations.

The three subcommittees of the Provost's Enrollment Management Advisory Committee (EMAC) have begun work. The subcommittees are: Enrollment Management Subcommittee, Retention/Persistence Subcommittee, and the Summer Utilization for Recruitment and Retention

Subcommittee. Diane Chlebowy (Enrollment Management), David Owen (Summer Utilization) and Krista Wallace-Boaz (Retention and Persistence) are serving on these committees.

Committees: All standing committees of the Faculty Senate have been charged. Faculty Senate representation on university wide committees is an important part of our commitment to shared governance. If you are interested in serving on a campus wide committee please contact the Faculty Senate chair to discuss opportunities.

Additional Updates:

- November 7 is the last day for Open Enrollment
- University and Faculty Senate leadership continue to discuss complications with Follett
- The School of Dentistry's graduate orthodontic clinic is offering a 10% discount for comprehensive orthodontic treatment to all UofL employees, their spouses and children, as well as UofL students. Call 502-852-5625 for additional information

Respectfully Submitted,

Krista Wallace-Boaz

Chair, Faculty Senate

CliftonLarsonAllen

CliftonLarsonAllen LLP
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Board of Directors
University of Louisville Athletic Association, Inc.
Louisville, Kentucky

We have audited the financial statements of the University of Louisville Athletic Association, Inc. as of and for the year ended June 30, 2018, and have issued our report thereon dated October 25, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by University of Louisville Athletic Association, Inc. are described in Note 1 to the financial statements.

As described in Note 1, the University changed accounting policies related to reporting post-employment benefit liability other than the pension plan by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2018. Accordingly, the cumulative effect of the accounting change is recorded as a restatement of the beginning of the year net position in the business-type activities.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

- Management's estimate of the allowance for doubtful accounts is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, infrastructure, building improvements, intangible assets, and equipment. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the self-insurance accrual is based on historical experience, actuarial inputs and relevant industry data. We evaluated the key factors and assumptions used to develop the accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 25, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

* * *

This communication is intended solely for the information and use of the Board of Directors and management of University of Louisville Athletic Association, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF
LOUISVILLE.

October 25, 2018

CliftonLarsonAllen LLP
600 Washington Avenue
St. Louis, Missouri 63130

This representation letter is provided in connection with your audit of the financial statements of University of Louisville Athletic Association, Inc., which comprise the respective financial position as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 25, 2018, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2018, and the following representations as they apply to the financial statements as of and for the year ended June 30, 2017, which were audited by other auditors.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 8, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable

from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.

7. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.

8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

9. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

Information Provided

1. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

    e. Access to all audit or relevant monitoring reports, if any, received from funding sources.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management;

    b. Employees who have significant roles in internal control; or

   c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

6. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

10. We have a process to track the status of audit findings and recommendations.

11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to University of Louisville Athletic Association, Inc., including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

14. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

18. The financial statements properly classify all funds and activities.

19. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

20. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

21. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

26. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

27. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

28. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

29. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: Nicki Bendapudi Title: PRESIDENT

Signature: Vince Ayres Title: DIRECTOR OF Athletics

Signature: [illegible] Title: Vice President Finance/Adm.

Signature: Walter Burrell Title: Controller

Signature: [illegible] Title: Director of Accounting & Reporting

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
University of Louisville
University of Louisville Athletic Association
Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS	Effect of misstatements on:			
Description	**Assets**	**Liabilities**	**Fund Balance / Net Assets**	**Net Expense/Revenue and Change in Net Assets / Fund Balance**
Funds moved to endowment	$ (566,539)			$ 566,539
Christ CH SL Lease	333,000			(333,000)
Incorrect AR Discount Calculation	3,939,352			(3,939,352)
Addidas Inventory not booked in PY			(2,610,151)	2,610,151
Net current year misstatements (Iron Curtain Method)	3,705,813	-	(2,610,151)	(1,095,662)
Net prior year misstatements	-	-	-	-
Combined current and prior year misstatements (Rollover Method)	$ 3,705,813	$ -	$ (2,610,151)	$ (1,095,662)
Financial statement totals	$ 323,246,000	$ 186,156,000	$ 137,090,000	$ (14,105,000)
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	1%		-2%	8%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	1%		-2%	8%

UNIVERSITY OF LOUISVILLE
ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Auditor’s Report and Financial Statements
June 30, 2018 and 2017

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
University of Louisville Athletic Association, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Louisville Athletic Association, Inc. (Association), a component unit of the University of Louisville, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Association as of June 30, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During fiscal year ended June 30, 2018, the Association adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* As a result of the implementation of this standard, the Association reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Prior Year Financial Statements

The 2017 financial statements of the Association were audited by other auditors whose report dated October 19, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, and the Schedule of Funding Progress on Page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Athletic Association, Inc. (Association) as of and for the years ended June 30, 2018, 2017, and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

The Association is a Kentucky nonprofit corporation organized in 1984 for the purpose of promoting the intercollegiate athletic activities of the University of Louisville (University), a state-supported metropolitan research university located in Kentucky's largest city. The Association is reported herein as a separate corporation and it is included in the financial statements of the University.

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 equality plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors.

The Association continues to support the athletic achievements of the students by expanding and improving the facilities. During the June 30, 2018 fiscal year, a $63 million expansion that included additional seating and training space was near completion. During the June 30, 2017 fiscal year, construction of the $20 million Thornton Academic Center was opened for student athlete dining and Academic Counseling.

The Association continues to invest in the academic achievement and community involvement of the student-athletes. During the 2017/2018 academic year, the Association had 364 student-athletes included in the ACC Honor Roll. In addition, seven teams – men's basketball (NABC), women's lacrosse (IWLCA), women's cross country (USTFCCCA), women's track and field (USTFCCCA), field hockey (NFHCA), women's tennis (ITA) and volleyball (AVCA) – were recognized by their national associations for academic achievement.

Financial Highlights

The Association's financial position at June 30, 2018 is characterized by the following:

- Total assets were $321.7 million, a decrease of $5.9 million, or 2%, from June 30, 2017, due mainly to a reduction in investments held with the University of Louisville Foundation, Inc. used primarily to fund certain one time costs related to separation of employment with the former athletic director and hiring a new coach.

- Total liabilities were $184.9 million, an increase of $10.2 million, or 5.6%, compared to June 30, 2017, due mainly to increased payables and accrued expenses related to the construction of the stadium expansion and the ACC network production studio.

- Net position, which represents the residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was $137.1 million, a decrease of $16.6 million, or 10.8%, compared to June 30, 2017.

- Operating revenues amounted to $76.5 million and when offset by operating expenses of $118.9 million, an operating loss of $42.4 million resulted. The operating loss was offset by other revenues of $28.3 million resulting in a decrease in net position of $14.1 million for the year ended June 30, 2018.

- Other revenues of $28.3 million consist of $29.6 million in gifts, capital gifts and contributions and $0.4 million of investment returns, including realized and unrealized gains, offset by $0.3 million of interest on capital related debt and other expenses of $1.4 million.

As of June 30, 2018, the ratio of assets to liabilities was 1.7, slightly less than the prior ratio of 1.9. The Association's most significant asset, the Stadium, is reflected at its historic cost of $223.8 million less $50.6 million in accumulated depreciation for a net capitalized value of $173.2 million.

Statements of Net Position

The statements of net position present the financial position of the Association at the end of each fiscal year. Net position represents the difference between total assets, total deferred outflows of resources, total liabilities, and total deferred inflow of resources. The change in net position indicates whether the overall financial condition has accumulated or consumed resources during the year. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less an allowance for accumulated depreciation. The condensed statements of the Association's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2018, 2017, and 2016 are as follows:

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
ASSETS					
Current assets	$ 52,633	$ 69,448	$ 52,709	$ (16,815)	$ (8,541)
Long-term investments	1,358	1,558	27,938	(200)	(1,100)
Capital assets, net	218,424	176,676	165,384	41,748	11,292
Other	49,265	79,893	34,067	(30,628)	45,826
Total assets	321,680	327,575	280,098	(5,895)	47,477
DEFERRED OUTFLOWS	1,566	1,679	441	(113)	1,238
LIABILITIES					
Current liabilities	61,058	59,449	58,841	1,609	608
Noncurrent liabilities	123,836	115,224	81,550	8,612	33,674
Total liabilities	184,894	174,673	140,391	10,221	34,282
DEFERRED INFLOWS	1,262	857	175	405	682
NET POSITION					
Net investment in capital assets	124,765	124,758	113,091	7	11,667
Restricted - nonexpendable	1,633	1,633	1,633	-	-
Restricted - expendable	28,368	28,681	24,362	(313)	3,047
Unrestricted	(17,676)	(1,348)	887	(16,328)	(963)
Total net position	$ 137,090	$ 153,724	$ 139,973	$ (16,634)	$ 13,751

Assets

Current assets of $52.6 million represent 16% of total assets. These assets mainly consist of $23.5 million in cash and cash equivalents, $13.9 million in investments held with the Foundation, $12.3 million in accounts and contributions receivable and inventory of $2.6 million. Current assets decreased by $16.8 million, with decreases in cash and cash equivalents and investments held with University of Louisville Foundation, Inc. A $7.0 million decrease in current cash and equivalents is primarily a result of deferred compensation payments, and timing of ticket sales for the 2018/2019 season. The decrease in new pledges for the Stadium expansion contributed to the $1.0 million decrease in accounts and contributions receivable. Investments held with the University of Louisville Foundation, Inc. decreased $11.4 million due to payment of a contractual obligation paid to the former athletic director and one time costs associated with hiring a new coach.

The remaining $269.0 million, or 84% of total assets, is classified as noncurrent. The Association's most significant long-term assets are $218.4 million in net capital assets, $17.4 million in accounts and contributions receivable and $31.6 million in restricted cash. Noncurrent assets increased $10.9million compared to the prior year, mainly due to construction expanding the stadium of $47.1 million, offset by the reduction of restricted cash of $23.5 million and accounts and contributions receivable of $7.3 million. The reduction of restricted cash and receivables are both related to the stadium construction.

Liabilities

Current liabilities were $61.1 million, or 33% of total liabilities, at June 30, 2018, representing an increase of $1.6 million compared to the prior year. The increased current liabilities consists mainly of construction payables included in accounts payable and accrued liabilities offset by a note payable that was refinanced during 2018 and is now included as a long term liability.

Noncurrent liabilities were $123.8 million, or 67% of total liabilities, at June 30, 2018. The most significant noncurrent liability consists of $106.5 million in interest-free and interest bearing loans from the University and the Foundation in noncurrent liabilities. These loans relate to the construction of the Stadium, Cardinal Park and the Academic Center. Noncurrent liabilities increased $8.6 million, or 5%, when compared to the prior year, due mainly to refinancing of a note payable that was included as a current liability as of June 30, 2017.

The University adopted new accounting requirements for other post-employment benefits, as further described in the footnotes to the financial statements, that result in an additional liability of $2.7 million.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Association reports deferred outflows and inflows of resources, which represent a consumption or acquisition of net position that applies to future periods. The Association recognizes the fair market value of a financial derivative related to outstanding debt in other long-term assets or other long-term liabilities. The derivative is considered to be effective in the reduction of risk, so the change in their fair market value is shown as a deferred outflows or inflows of resources. In total, the fair market value related to the derivative increased by $203 thousand, with the fair value of the interest rate swap changing from a deferred outflow to a deferred inflow as of June 30, 2018.

The Association reports as deferred outflows of resources the loss on refunding of the bonds related to the Stadium, and Other Post Employment Benefits, with a balance of $1.6 million as of June 30, 2018.

The Association reports as deferred inflow of resources the future benefit for payment received for a service concession arrangement, fair market value of derivatives, and Other Post Employment Benefits, with a balance of $1.3 million as of June 30, 2018.

Net Position

Total net position of $137.1 million as of June 30, 2018 is reported in the following categories: net investment in capital assets, $124.8 million (91%); restricted-nonexpendable, $1.6 million (1%); restricted-expendable, $28.4 million (21%); and unrestricted, $(17.7) million.

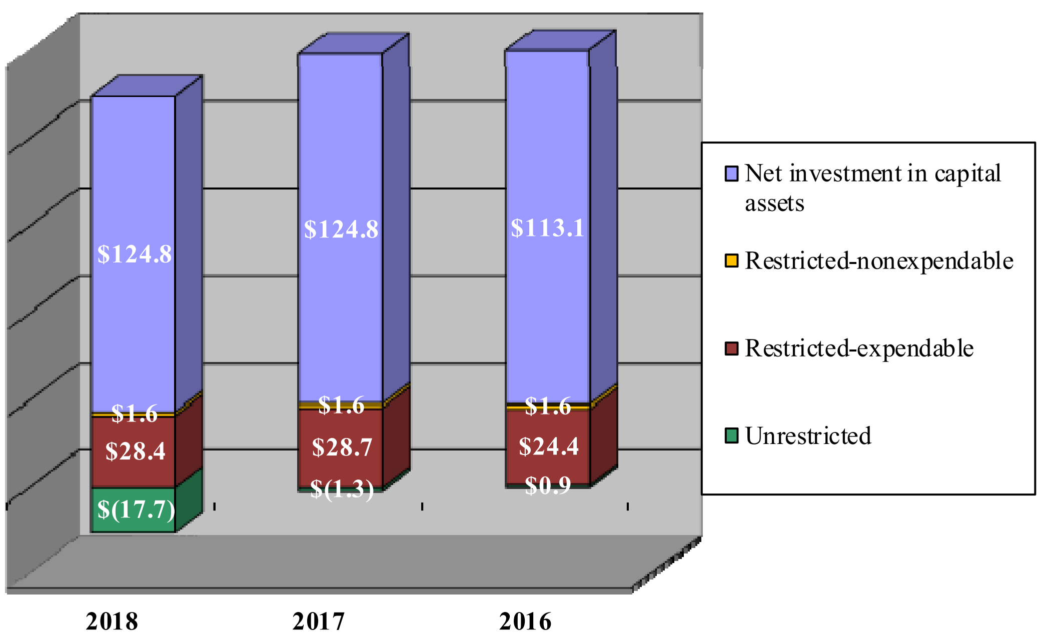
Net investment in capital assets primarily represents the net investment in the Stadium. Capital assets are offset by the $5.7 million of depreciation expense recognized during the year.

Restricted-nonexpendable net position includes amounts that are subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. The Association's restricted-nonexpendable net position consists of permanent endowment for scholarships. The restricted-expendable net position of the Association consists of amounts subject to externally imposed restrictions from donors, debt instruments, and other contractual obligations that govern their use.

Unrestricted net position decreased $16.3 million as compared to the prior year. The decrease is due to the adoption of GASB 75 and an operating loss.

A graphic illustration of net position as of June 30, 2018, 2017, and 2016 is as follows:

Net Position
June 30, 2018, 2017, and 2016



Fiscal Year 2017

Total assets at June 30, 2017 were $327.6 million, an increase of $47.5 million compared to the $280.1 million as of June 30, 2016. Current assets decreased $8.5 million compared to the prior year, attributable to the net decrease in cash and cash equivalents.

Liabilities at June 30, 2017 were $174.7 million as compared to $140.4 million as of June 30, 2016. The increase was related to amounts held for advanced ticket sales and sponsorship due to the timing of receiving payments for the 2017/2018 men's basketball season tickets and notes payable for the Stadium and other capital projects.

Deferred outflows of resources represent the unamortized portion of the loss on refinancing of the debt associated with the Stadium and the negative position of the interest rate swap on outstanding debt of the Association. The change from the prior year is due to the amortization of the loss over the remaining life of the debt and the recognition of the change to the negative position of the swap derivative. Deferred inflows of resources at June 30, 2017 of $1.0 million relate to the fair market value of the derivative associated with the Association's debt that is still in a positive position.

Net position at June 30, 2017 was $153.7 million, an increase of $13.8 million over the June 30, 2016 net position. The majority of the increase is due to an increase in net investment in capital assets of $11.7 million.

The adoption of new accounting requirements for other post-employment benefits resulted in the restatement of opening unrestricted net position as of July 1, 2017 by a reduction of $2.5 million.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the Association's results of operations. Revenues and expenses are categorized as operating or nonoperating revenues or expenses according to their source or purpose. Significant sources of revenues such as gifts, investment returns and the supplemental income received from the University for gender equity purposes, as well as the student fees collected, are classified as nonoperating activities. Capitalized assets are being depreciated over their useful lives. Depreciation is recognized as an operating expense.

The Association's condensed statements of revenues, expenses and changes in net position for the years ended June 30, 2018, 2017 and 2016 are as follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - Change	2017 - 2016 Change
OPERATING REVENUES					
Sports	$ 61,722	$ 57,976	$ 56,830	$ 3,746	$ 1,146
Other operating revenues	14,769	14,780	14,505	(11)	275
Total operating revenues	76,491	72,756	71,335	3,735	1,421
OPERATING EXPENSES					
Sports	67,281	60,881	60,382	6,400	499
Other operating expenses	45,841	37,701	34,410	8,140	3,291
Depreciation	5,746	5,597	5,175	149	422
Total operating expenses	118,868	104,179	99,967	14,689	4,212
Operating loss	(42,377)	(31,423)	(28,632)	(10,954)	(2,791)
NONOPERATING REVENUES (EXPENSES)					
Gifts	29,320	45,356	38,608	(16,036)	6,748
Net realized and unrealized (loss)/gain on investments	248	49	(4,710)	199	4,759
Investment returns	150	73	215	77	(142)
Other nonoperating expenses	(1,706)	(691)	(2,415)	(1,015)	1,724
Contributions (to)/from related entities	260	387	(902)	(127)	1,289
Net nonoperating revenues	28,272	45,174	30,796	(16,902)	14,378
Increase in net position	(14,105)	13,751	2,164	(27,856)	11,587
NET POSITION					
Net position-beginning of year	153,724	139,973	137,809	13,751	2,164
Cumulative effect of change in accounting principle	(2,529)	-	-	(2,529)	-
Net position-end of year	$ 137,090	$ 153,724	$ 139,973	(16,634)	$ 13,751

Operating Revenues

Total operating revenues were $76.5 million and $72.8 million for the years ended June 30, 2018 and 2017, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised $61.7 million, or 81% of total operating revenues for the year. Other operating revenues amounting to $14.8 million for each of the years ended June 30, 2018 and 2017, respectively, and include revenues from sources such as concession sales, parking and facilities rentals, and media contracts. Operating revenues increased $3.7 million, or 5%, due mainly to revenues generated from the football program.

Operating Expenses

Total operating expenses were $118.9 million and $104.2 million for the years ended June 30, 2018 and 2017, respectively. For the year ended June 30, 2018, expenses consist mainly of $67.3 million, or 57%, in direct sports-related expenses. The remaining $51.6 million in operating expenses consist mainly of support services of $13.1 million, marketing and development of $6.0 million, and administrative expenses of $10.8 million, of which $2.5 million is for academic counseling and student medical expense. The depreciation expense of $5.7 million is associated primarily with the Stadium.

Total operating expenses increased by $14.7 million, or 14%, in the current year due to increased football and basketball expenses, and an overall increase in indirect support operating expenses, which consists primarily of increased salaries and benefits and enhancements in recruiting software and student nutrition.

Operating Loss, Nonoperating Revenues, and Net Position

The Association's loss from operations amounted to $42.4 million and $31.4 million for the years ended June 30, 2018 and 2017, respectively. During the fiscal year ended June 30, 2018, the operating loss was offset by the $28.3 million in nonoperating revenues and capital gifts, leaving a decrease in net position of $14.1 million, compared to the $13.8 million increase in net position realized during the fiscal year ended June 30, 2017.

Overall, nonoperating revenues decreased 37%. Capital gifts decreased $16.0 million as the capital campaign to raise funds for the stadium expansion completed in fiscal year 2017. During the current fiscal year, the Association had a net realized and unrealized gain of $0.2 million compared to a net gain of only $49 thousand in the prior year. This increase is a result of gains from endowment liquidations transferred to operations.

Fiscal Year 2017

The Association's loss from operations amounted to $31.4 million and $28.6 million for the years ended June 30, 2017 and 2016, respectively. During the fiscal year ended June 30, 2017, the operating loss was offset by the $45.2 million in nonoperating revenues leaving an increase in net position of $13.8 million. This is an increase of $11.6 million as compared to the $2.2 million increase in net position realized during the fiscal year ended June 30, 2016.

Overall, nonoperating revenues increased $14.4 million, or 47%. Contributions from related entities increased $1.3 million. Capital gifts increased $7.2 million. During the 2017 fiscal year, the Association had a net realized and unrealized loss of $50 thousand compared to a net loss in the prior year of $4.7 million. This decrease is a result of the market value of the investments held with the Foundation.

Statements of Cash Flows

The statements of cash flows provide information about the Association's sources and uses of cash during the year. Cash inflows and outflows are categorized as operating, noncapital financing, capital financing and investing activities.

A summary of the Association's cash flow activity for the years ended June 30, 2018, 2017, and 2016 is shown below:

Condensed Statements of Cash Flows
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
Cash (used)/provided by:					
Operating activites	$ (30,162)	$ (32,517)	$ (23,054)	$ 2,355	$ (9,463)
Noncapital financing activities	37,659	112,579	30,468	(74,920)	82,111
Capital financing activities	(39,230)	(43,781)	(2,386)	4,551	(41,395)
Investing activities	1,174	1,427	(2,282)	(253)	3,709
Net increase/(decrease) in cash and cash equivalents	(30,559)	37,708	2,746	(68,267)	34,962
Cash and cash equivalents, beginning of year	85,744	48,036	45,290	37,708	2,746
Cash and cash equivalents, end of year	$ 55,185	$ 85,744	$ 48,036	$ (30,559)	$ 37,708

Operating Activities

The Association's cash and cash equivalents decreased by $30.6 million during the year, mostly due to the use of cash for construction projects. The Association experienced a net outflow of $30.2 million in cash paid for operations, a decreased outflow of $2.3 million from the fiscal year ended June 30, 2017. The improvement in cash used by operating activities relates to reduced payments to employees and suppliers during fiscal year 2018.

Other Activities

Cash provided by noncapital and related financing activities of $37.7 million offset the cash used by operating activities. These cash flows consist primarily of $34.4 million in gifts received to support the sports programs. Cash used by capital financing activities of $39.2 million relates mainly to the $11.0 million of cash used for principal and interest payments on long-term liabilities offset by proceeds of $9.6 million in new debt and the $38.2 million of cash used to purchase capital assets which primarily includes the stadium expansion and construction of the ACC production studio.

Cash provided by investing activities was $1.2 million, a decrease from the $1.4 million in the prior year. During the prior year, the Association liquidated a portion of investments held with the Foundation to fulfill planned contractual obligations.

Fiscal Year 2017

The Association's cash and cash equivalents increased by $37.7 million during the year, mostly due to the increase in restricted cash for construction projects. The Association experienced a net outflow of $32.6 million in cash paid for operations, an increase of $9.5 million from the fiscal year ended June 30, 2016. Other athletic program receipts increased $5.9 million.

Cash provided by noncapital and related financing activities of $112.6 million offset the cash used by operating activities. These cash flows consist primarily of $45.4 million in gifts received to support the sports programs. Cash used by capital financing activities relates mainly to the $42.2 million of cash used for principal and interest payments on long-term liabilities and the $16.2 million of cash used to purchase capital assets.

Cash provided by investing activities was $1.4 million, a decrease from the $2.3 million provided in the prior year. During the prior year, the Association liquidated a portion of investments held with the Foundation to support the University and fulfill planned contractual obligations.

Economic Factors that May Affect Future Periods

The Association's Board of Directors approved a balanced operating budget for the 2019 fiscal year that includes goals for enhancing the student athlete experience and completion of the television production facility. The balanced budget calls for $108 million in revenues and expenses, a 3% increase over the original 2018 fiscal year budget of $105 million. The budget includes an increase in football revenue of 10%, due primarily to an increase in the number of games as well as game guarantees. Marketing revenue is increasing more than 40% due to payments from Adidas under a new long term contract. Sports expense operating budgets increased $1.8 million, from $54 million budgeted for the 2018 fiscal year, due primarily to changes in men's basketball.

The Association anticipates a brief pause in large capital construction projects with the completion of both the ACC Network production studio and expansion of Cardinal Stadium. The focus will shift to enhanced capital replacement and deferred maintenance of existing facilities. The Association continues to work closely with conference administration on issues impacting both the conference and the industry.

This financial report is designed to provide a general overview of the Association's finances and to show the Association'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 Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Net Position
As of June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 23,544	$ 30,556
Deposits with bond trustee	-	47
Accounts and contributions receivable, net	12,319	13,298
Inventory	2,610	-
Investments held with University of Louisville Foundation, Inc.	13,884	25,280
Other assets	276	267
Total current assets	52,633	69,448
Noncurrent Assets:		
Restricted cash	31,641	55,188
Accounts and contributions receivable, net	17,440	24,705
Other long-term investments	1,358	1,558
Other long-term assets	184	-
Capital assets, net	218,424	176,676
Total noncurrent assets	269,047	258,127
Total assets	321,680	327,575
DEFERRED OUTFLOWS OF RESOURCES	1,566	1,679
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	18,795	9,510
Unearned compensation and wages payable	320	1,349
Advances	33,992	34,633
Due to University of Louisville	4,938	3,220
Bonds and note payable	3,013	10,737
Total current liabilities	61,058	59,449
Noncurrent Liabilities:		
Due to University of Louisville	106,497	104,284
Due to University of Louisville Foundation, Inc.	316	316
Unearned compensation and wages payable	2,201	4,688
Note payable to University of Louisville	1,000	1,000
Advances	3,027	3,282
Other long-term liabilities	4,182	1,654
Bonds and note payable	6,613	-
Total noncurrent liabilities	123,836	115,224
Total liabilities	184,894	174,673
DEFERRED INFLOWS OF RESOURCES	1,262	857
NET POSITION		
Net investment in capital assets	124,765	124,758
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,633	1,633
Expendable		
Scholarships and fellowships	2,877	869
Institutional support	3,561	3,239
Capital projects	428	-
Debt service	21,502	24,573
Unrestricted	(17,676)	(1,348)
Total net position	$ 137,090	$ 153,724

See notes to the financial statements

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Sports:		
Basketball	$ 21,814	$ 21,236
Football	37,660	35,055
Other sports	2,248	1,685
Total sports	61,722	57,976
Papa John's Cardinal Stadium	1,389	1,229
Marketing & development	9,643	9,090
Administration	670	1,586
Support services	1,170	1,136
Other operating revenues	1,897	1,739
Total operating revenues	76,491	72,756
OPERATING EXPENSES		
Sports:		
Basketball	19,544	14,145
Football	22,407	21,604
Other sports	25,330	25,132
Total sports	67,281	60,881
Papa John's Cardinal Stadium	1,892	1,505
Marketing & development	6,020	8,158
Administration	10,779	7,231
Support services	13,081	10,547
Game management/facilities operations	3,137	3,238
Depreciation	5,746	5,597
Other operating expenses	10,932	7,022
Total operating expenses	118,868	104,179
Operating loss	(42,377)	(31,423)
NONOPERATING REVENUES (EXPENSES)		
Gifts	28,927	28,524
Investment returns	150	73
Net realized and unrealized (loss)/gain on investments	248	49
Interest on capital related debt	(320)	(920)
Other nonoperating (expenses)/revenues	(1,386)	229
Net nonoperating revenues	27,619	27,955
Capital gifts	393	16,832
Contributions (to)/from related entities	260	387
Total other revenues	28,272	45,174
Increase in net position	(14,105)	13,751
NET POSITION		
Net position-beginning of year	153,724	139,973
Cumulative effect of change in accounting principle	(2,529)	-
Net position-end of year	$ 137,090	$ 153,724

See notes to the financial statements

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Ticket sales	$ 28,528	$ 23,440
NCAA/Conference distributions	29,991	26,855
Payments to suppliers	(51,486)	(34,912)
Payments to employees	(34,620)	(42,827)
Payments for utilities	(27)	(24)
Payments for benefits	(8,199)	(7,526)
Payments for scholarships and fellowships	(14,209)	(15,310)
Other athletic program receipts	19,860	17,787
Net cash used by operating activities	(30,162)	(32,517)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts	34,397	27,516
Contributions to/from related entities	4,191	84,975
Other payments	(929)	88
Net cash provided by noncapital and related financing activities	37,659	112,579
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts received	380	10,769
Proceeds from notes payable	9,626	-
Purchases of capital assets	(38,226)	(16,225)
Principal paid on bonds and notes payable	(10,737)	(42,220)
Interest paid on bonds and notes payable	(320)	(1,812)
Deposits with bond trustee	47	5,707
Net cash used by capital financing activities	(39,230)	(43,781)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	674	853
Sale (purchase) of investments	200	428
Interest on investments	300	146
Net cash provided by investing activities	1,174	1,427
Net increase/(decrease) in cash and cash equivalents	(30,559)	37,708
Cash and cash equivalents - beginning of year	85,744	48,036
Cash and cash equivalents - end of year	$ 55,185	$ 85,744
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (42,377)	$ (31,423)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	5,746	5,597
Loss on disposal of equipment	9	2
Change in assets and liabilities:		
Accounts and contributions receivable, net	(1,226)	(303)
Investments held with University of Louisville Foundation, Inc.	10,823	-
Other assets	(9)	647
Accounts payable and accrued liabilities	226	985
Advances	506	(4,142)
Unearned compensation and wages payable	(3,516)	(3,543)
Other long-term liabilities	(344)	(337)
Net cash used by operating activities	$ (30,162)	$ (32,517)
SUPPLEMENTAL CASH FLOW INFORMATION		
Capital asset additions in accounts payable	$ 12,707	$ 3,430

See notes to the financial statements

1. Basis of Presentation and Summary of Significant Accounting Policies

The University of Louisville Athletic Association, Inc. (Association) (a Kentucky nonprofit corporation) is affiliated with the University of Louisville (University) and is included within the University's financial statements. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. The Association has authorized the University to receive, hold and disburse funds on behalf of the Association.

a. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB). The financial statements of the Association have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used externally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The Association first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The financial statements of the Association can be found at the following:
http://louisville.edu/finance/controller/univacct/finst-1

b. Cash and Cash Equivalents

The Association 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

Deposits with bond trustees consist of cash and investments in governmental securities. Investments in governmental securities are stated at fair value.

d. Accounts and 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 Association 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.

Accounts receivable consist of charges and reimbursements for services provided to students, faculty, staff and external entities. Accounts receivable are recorded net of uncollectible amounts.

e. Inventories

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

f. Investments

Investments are stated at current fair value. Investments held with the University of Louisville Foundation, Inc. (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 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 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 (Commonwealth). 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 has a standing policy (the spending policy) of appropriating for expenditure each year a percentage of certain endowment funds' average market values over the prior three years through the calendar year-end preceding the year in which expenditure is planned. 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. 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, including the Association.

The Association purchased insurance annuity policies to fund deferred compensation arrangements as stipulated by the arrangements. These are classified as other long-term investments in the summary of net position.

The Foundation invests in various corporate debt, equity and mutual fund securities. 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 and the Association's statements of net position.

g. Capital Assets

Capital assets are stated principally at cost, if purchased, or at estimated acquisition value at date of receipt from donors. Capital assets are depreciated on the straight-line basis over the estimated useful lives of the assets, as follows: buildings – 40 years; land improvements – 40 years; equipment – 3-15 years; and leasehold improvements – 20 years.

Prior to the period ending June 30, 2017, The Association capitalized interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. The Association elected to early adopt GASB statement No. 89 *Accounting for Interest Incurred Before the End of a Construction Period*. A description of the statement is located at item q in Note 1. Total interest incurred for the years ended June 30, 2018 and 2017 was $320 thousand and $920 thousand, respectively. There was no interest capitalized in 2018 or 2017.

h. 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*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, the Association 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 $1.6 million and $1.7 million for the years ended June 30, 2018 and 2017, respectively, consist of loss on bond refinancing of $1.4 million and other post-employment benefits of $0.2 million as of June 30, 2018 and loss on bond refinancing of $1.7 million and the fair value of derivatives of $0.02 million as of June 30, 2017. 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 outflows of resources related to other post-employment benefits consist of payments to be made in future periods.

Deferred inflows of resources of $1.3 million as of June 30, 2018 consist of service concession arrangements of $0.7 million, fair value of derivatives of $0.2 million and changes in the other post-employment benefits liability of $0.4 million. Deferred inflows of resources of $0.9 million as of June 30, 2017 consist of service concession arrangements. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred inflows of resources. Changes in the other post-employment benefits deferred inflow will be recognized in future periods.

It is not practical for the Association to determine the amounts of all deferred inflows of resources and deferred outflow of resources related to implementation of changes in accounting for other post-retirement benefits as of the beginning of the fiscal year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net other post-employment benefit liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017.

i. Unearned Compensation Expenses

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

j. Compensated Absences

Association 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 when 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.

k. Advances

Advances, which consist primarily of amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, parking revenue, and sponsorships, was approximately \$37.0 million and \$37.9 million at June 30, 2018 and 2017, respectively. Such advances are recognized over the term of the related athletic activities.

l. Net Position

The net position of the Association is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and 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 Association to maintain the assets in perpetuity. Restricted-expendable net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Association, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

m. Classification of Revenues

The Association 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 (1) tickets for athletic events, (2) concession sales, (3) parking and facilities rentals, and (4) media contracts.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as 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, such as investment income.

n. Net Bond Premium

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

o. Tax Status

As an affiliate of a state institution of higher education, the income of the Association 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 Association is subject to federal and state income tax on any unrelated business taxable income.

p. 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 deferred 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.

q. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statement of revenues, expense and changes in net position. These reclassifications had no effect on the change in net position.

r. Recent Accounting Pronouncements and Restatement

As of June 30, 2018, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Implementation of this Statement required adjustments to the Statement of Net Position reported as of June 30, 2017 by reflecting the cumulative effect of change in accounting principle.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The university elected to early adopt the statement and discontinue capitalization of interest related to the construction of capital assets.

As of June 30, 2018, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB Statement No. 85, *Omnibus 2017.* The Statement addresses practice issues identified during implementation and application of certain GASB Statements of a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

As of June 30, 2018, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

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. 87, *Leases.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

2. Cash, Cash Equivalents, and Investments

a. Summary of Carrying Values

The carrying value of deposits and investments are included in the statements of net position as shown on the following page (in thousands):

	2018	2017
Deposits	$ 55,185	$ 85,744
Investments		
U.S. Treasury obligations	-	47
Investments held with the University of Louisville Foundation, Inc.	13,884	25,280
Annuities	1,358	1,558
	$ 70,427	$ 112,629
Included in the following statements of net position captions:		
Cash and cash equivalents	$ 23,544	$ 30,556
Deposit with bond trustee-current	-	47
Restricted cash	31,641	55,188
Investments held with the University of Louisville Foundation, Inc.	13,884	25,280
Annuities	1,358	1,558
	$ 70,427	$ 112,629

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Association's deposits or collateral securities may not be returned. For administrative convenience, cash balances of the Association are included in bank accounts maintained by the University. Details of accounting transactions affecting cash are maintained in such a manner as to ensure an appropriate segregation of amounts maintained by each entity.

The University currently uses commercial banks and the Commonwealth as its depositories. Deposits with commercial banks are covered up to the limits of 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.

Other long term investments are insurance annuity policies at June 30, 2018. The Association's investment policy does not address the monitoring of the issuing party.

c. Interest Rate Risk

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

As of June 30, 2018 and 2017, the Association had no investments subject to interest rate risk, compared to $47 thousand in 2017, which matured during the past year.

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2018 and 2017, the $13.9 million and $25.3 million, respectively, in investments held by the Foundation are considered pooled investments and not rated as to credit risk.

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.

The asset allocation for investments held with the Foundation as of June 30, 2018 and 2017 was as follows:

	2018	2017
Investment in partnerships	53%	60%
Marketable alternatives	22%	13%
Preferred and common stock	4%	13%
Mutual funds	13%	12%
Fixed income	8%	2%
Total	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 Association had no investments denominated in foreign currency at June 30, 2018 or 2017.

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 University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following table 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, 2018 and 2017 (in thousands):

	Balance as of 6/30/2018	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 securities	$ -	$ -	$ -	$ -	$ -
University of Louisville Foundation, Inc. investment fund	13,884	-	-	-	13,884
Investment derivative instruments					
Interest rate swap	184	-	184	-	-
Total investments measured at fair value	$ 14,068	$ -	$ 184	$ -	$ 13,884

	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 securities	$ 47	$ 47	$ -	$ -	$ -
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	$ 25,307	$ 47	$ (19)	$ -	$ 25,280

a. Investments

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Governmental 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. Investments measured at net asset value (NAV) (in thousands):

	Fair Value as of 6/30/18	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 13,884	Various from any valuation day to quarterly	Various from 5 to 90 days

	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

Investments within the University of Louisville Foundation, Inc. pooled investment fund consist of money market mutual funds, common and preferred stock, corporate bonds, mutual funds, investments in partnerships, and funds of funds, U.S. Government securities 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. Transactions with Related Organizations

a. University of Louisville

The Association has contracted with the University for certain administrative, operational, and maintenance services. During the years ended June 30, 2018 and 2017, the Association made no reimbursement per agreement with the University.

b. University of Louisville Foundation, Inc.

The Foundation is a separate corporation organized as a supporting organization of the University for the purpose of promoting the University's educational, scientific, literary and cultural interests. The Foundation serves in a fiduciary capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2018 and 2017, the Foundation held funds of the Association of approximately $13.9 million and $25.3 million, respectively, for investment purposes.

c. Debt with Related Entities

As of June 30, 2018 and 2017, the Association has noninterest bearing debt with no specific repayment terms of approximately $9.2 million with the University. The debt relates to $8.6 million of expenditures incurred in fiscal years 1999 and 2000 during the construction of the Stadium and to $0.6 million of expenditures incurred during fiscal years 2003 and 2004 related to the Wright Natatorium.

In April 2016, the Association received a $15.0 million unsecured loan bearing interest at 2.5% from the University. The Association is obligated to repay the loan in equal semi-annual payments over 20 years. During the years ended June 30, 2018 and 2017, the Association repaid $0.6 million in each respective year. The outstanding loan balance is $13.5 million as of June 30, 2018.

In December 2016, the University issued $27.6 million of University of Louisville, General receipts Bonds, 2016 Series F, which the proceeds along with debt service reserve funds and existing University funds were used to complete the current refunding of the Association's Louisville/Jefferson County Metro Government Mortgage Revenue Refunding and Improvement Bonds, 2008 Series A and B (mortgage revenue bonds). As a result, the liability for the mortgage revenue bonds, related deposits with bond trustee and derivative repurchase agreement have been removed from the Association's statement of net position. Additionally, the University issued $50.7 million of University of Louisville, General Receipts Bonds, 2016 Series D and E to finance the expansion of Papa John's Cardinal Stadium and athletic training center. The proceeds of the Series D, E and F bonds were loaned to the Association. The Association entered into an agreement with the University for the Association to repay the bonds based on the bond repayment schedules. This liability is stated in current and noncurrent due to University of Louisville and deferred outflow of resources for related loss on refinancing. The outstanding loan balance and related cost due to the University is $81.5 million and $84.2 million as of June 30, 2018 and 2017, respectively.

In May 2018, the Association received $7.2 million from the University which was borrowed under a master lease agreement with a financial institution. The funds were used to finance the construction of a television broadcast and production studio. The Association entered into an agreement with the University for the Association to repay the lease based on the lease repayment schedule. This liability is stated in current liabilities and noncurrent due to University of Louisville. The outstanding loan balance is $7.2 million as of June 30, 2018.

In July 2001, the Association received a $0.3 million 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 $0.3 million as of June 30, 2018 and 2017.

In January 1999, the Association received 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. During the year ended June 30, 2018, the Association did not make a payment. The outstanding balance was approximately $1.0 million as of June 30, 2018 and 2017.

d. Contributions with Related Entities

The University, during its annual budgetary process, agrees to transfer funds to the Association to assist with expenses related to retention and gender equality. The University transferred $2.1 million and $2.2 million, respectively, for the years ended June 30, 2018 and 2017 for this purpose. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred $2.0 million and $2.1 million of student fees collected for the years ended June 30, 2018 and 2017, respectively.

The Association is the beneficiary of pledges related to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University. The Association transfers cash received on these pledges, as well as other unrestricted funds to the University in order to fulfill the purpose of the gifts. The Association transferred $3.4 million and $1.5 million related to capital projects and debt service payments during each of the fiscal years ended June 30, 2018 and 2017, respectively.

Additionally, the Association transferred $0.4 million and $1.4 million to the University for the years ended June 30, 2018 and 2017, respectively, related to other transactions and support of University endeavors.

During the fiscal years ended June 30, 2018 and 2017, the Association transferred $0.4 million and $0.9 million, respectively, to the Foundation to support the operations of the golf facility owned by the Foundation. This transfer is recorded in other nonoperating expenses and revenues.

5. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2018 and 2017 are as follows (in thousands):

2018	Gross	Allowance	Net
Trade receivables	$ 7,875	$ -	$ 7,875
Contributions receivable	33,384	(10,572)	22,812
Total	$ 41,259	$ (10,572)	30,687
Less: Discount			928
Current portion			12,320
Non current portion			$ 17,439

2017	Gross	Allowance	Net
Trade receivables	$ 5,949	$ -	$ 5,949
Contributions receivable	38,049	(5,232)	32,818
Total	$ 43,998	$ (5,232)	38,767
Less: Discount			764
Current portion			13,298
Non current portion			$ 24,705

Contributions receivable consist primarily of charitable gifts from individual and corporate donors that are associated with the construction projects of the Association. Contributions receivable with payment schedules in excess of one year are stated at their discounted present value. The discount rates ranged from 0.2% to 5.2%.

Contributions receivable as of June 30, 2018 and 2017 are due to be received as follows (in thousands):

	2018	2017
Less than one year	$ 11,016	$ 11,326
One to three years	12,445	14,240
Greater than three years	9,923	12,483
Subtotal	33,384	38,049
Less: discount	(928)	(764)
Less: allowance	(10,572)	(5,232)
Net contributions receivable	$ 21,884	$ 32,054

6. Capital Assets, Net

Capital assets as of June 30, 2018 and 2017 are shown below and on the following page (in thousands):

	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost-Nondepreciable					
Land	$ 5,151	$ -	$ -	$ -	$ 5,151
Construction in progress	14,897	47,147	-	(369)	61,674
Subtotal	20,048	47,147	-	(369)	66,825
Cost-Depreciable					
Buildings	204,877	115	-	369	205,361
Land improvements	3,827	-	-	-	3,827
Equipment	3,298	242	(69)	-	3,471
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	213,301	357	(69)	369	213,958
Total capital assets-cost	233,349	47,503	(69)	-	280,783
Accumulated depreciation					
Buildings	53,170	5,181	-	-	58,351
Land improvements	626	132	-	-	758
Equipment	2,034	375	(60)	-	2,349
Leasehold improvements	843	58	-	-	901
Subtotal	56,673	5,746	(60)	-	62,359
Capital assets, net	$ 176,676	$ 41,757	$ (9)	$ -	$ 218,424

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost-Nondepreciable					
Land	$ 5,151	$ -	$ -	$ -	$ 5,151
Construction in progress	17,229	15,614	-	(17,947)	14,897
Subtotal	22,380	15,614	-	(17,947)	20,048
Cost-Depreciable					
Buildings	186,200	730	-	17,947	204,877
Land improvements	3,754	73	-	-	3,827
Equipment	2,893	473	(68)	-	3,298
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	194,146	1,276	(68)	17,947	213,301
Total capital assets-cost	216,526	16,890	(68)	-	233,349
Accumulated depreciation					
Buildings	48,090	5,080	-	-	53,170
Land improvements	495	131	-	-	626
Equipment	1,772	328	(66)	-	2,034
Leasehold improvements	785	58	-	-	843
Subtotal	51,142	5,597	(66)	-	56,673
Capital assets, net	$ 165,384	$ 11,293	$ (2)	$ -	$ 176,676

7. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2018 and 2017 are summarized as shown below and on the following page (in thousands):

	2018				
	Beginning Balance	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Term loan, variable interest rate of 1.3% as of June 30, 2014. Secured by revenue and pledges of the Project. Final maturity in 2018	$ 10,737	$ (10,737)	$ -	$ -	$ -
Term loan, variable interest rate of 3.1% as of June 30, 2018. Secured by revenue and pledges of the Project. Final maturity in 2022	-	9,626	9,626	3,013	6,613
Total bonds payable	10,737	(1,111)	9,626	3,013	6,613
Plus unamortized net premium	-	-	-	-	-
Bonds payable, net	$ 10,737	$ (1,111)	$ 9,626	$ 3,013	$ 6,613

	2017				
	Beginning Balance	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008A Interest rates of 3.5% to 5.0% Final maturity in 2018	$ 10,540	$ (10,540)	$ -	$ -	$ -
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.5% to 4.8% Final maturity in 2028	29,460	(29,460)	-	-	-
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	397	(397)	-	-	-
Term loan, variable interest rate of 1.3% as of June 30, 2013. Secured by revenue and pledges of the Project. Final maturity in 2018	11,967	(1,230)	10,737	10,737	-
Total bonds payable	52,364	(41,627)	10,737	10,737	-
Plus unamortized net premium	(68)	68	-	-	-
Bonds payable, net	$ 52,296	$ (41,559)	$ 10,737	$ 10,737	$ -

Principal and interest payments on notes payable due in the next five years and thereafter are as follows (in thousands):

For the Year Ended June 30	Principal	Interest	Total
2019	$ 3,013	$ 278	$ 3,291
2020	2,957	191	3,148
2021	2,122	105	2,227
2022	1,534	44	1,578
Total	$ 9,626	$ 618	$ 10,244

Association revenue is pledged for the payment of the term loan excluding approximately $2.0 million annually, which was available for amounts owed by the Association under the Arena lease agreement. For the current year, principal and interest paid by the Association and the total pledged revenue recognized were $1.4 million and $101.7 million, respectively.

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

In July 2008, the Louisville Metro Government issued $39.8 million of Mortgage Revenue Bonds 2008 Series A and $43.5 million of Mortgage Revenue Bonds 2008 Series B (Mortgage Revenue Bonds) at a combined net interest cost of 4.2%. The bond proceeds were used on September 1, 2008 to retire 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 (the Prior Project). Additional funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project. The bonds are secured by a mortgage on the University of Louisville Papa John's Cardinal Stadium and associated training and related facilities, and pledged Adjusted Gross Revenues, as defined by the official statement. The Mortgage Revenue Bonds were currently refunded by the issuance of General Receipts Bonds 2016, Series F and as a result the liability for the prior bonds has been removed from the Association's statement of net position.

The Foundation was the guarantor of the Mortgage Revenue Bonds, and as such agreed to maintain a balance of available cash sufficient enough to cover the next debt service payment. The guarantee was released at the time the Mortgage Revenue Bonds were refunded.

Term Loan

In June 2014, 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 (the 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 1.14%, reset on the last day of each month. This term loan was refinanced in June 2018 and replaced with a $9.6 million term loan with substantially the same terms. The interest rate on the new note is the daily one month LIBOR rate plus 100 basis points. The note contains a covenant that states the Association must maintain $10 million of unrestricted cash or investments.

8. Derivative Financial Instruments

a. Summary

At June 30, 2018, 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%	$ 184

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 assets 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, 2018, the increase in fair value of the Interest Rate Swap was approximately $203 thousand. 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, 2018. 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, 2018, 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.

9. Other Liabilities

Other liabilities as of June 30, 2018 and 2017 are summarized as shown below (in thousands):

	2018					
	Beginning Balance (as restated)	Additions	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville	$ 107,504	$ 4,540	$ (609)	$ 111,435	$ 4,938	$ 106,497
Due to University of Louisville Foundation Inc.	316	-	-	316	-	316
Unearned compensation and wages payable	6,037	$ 433	$ (3,949)	2,521	$ 320	2,201
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Advances	37,913	(451)	(443)	37,019	33,992	3,027
Other postemployment benefits	4,431	-	(249)	4,182	-	4,182
Total	$ 157,201	$ 4,522	$ (5,250)	$ 156,473	$ 39,250	$ 117,224

	2017					
	Beginning Balance	Additions	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville	$ 23,873	$ 84,216	$ (585)	$ 107,504	$ 3,220	$ 104,284
Due to University of Louisville Foundation Inc.	316	-	-	316	-	316
Unearned compensation and wages payable	9,581	952	(4,496)	6,037	1,349	4,688
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Advances	43,319	(4,572)	(832)	37,913	34,633	3,282
Other long-term liabilities	1,972	(51)	(18)	1,903	248	1,655
Total	$ 80,061	$ 80,545	$ (5,931)	$ 154,673	$ 39,450	$ 115,224

Other long-term liabilities as of June 30, 2018 and 2017 consist of future expenses required by certain pledge agreements and the fair value of certain derivatives. 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.

10. Natural Classification

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 were approximately (in thousands):

	2018	2017
Salaries and Wages	$ 39,834	$ 40,526
Employee Benefits	7,821	7,173
Supplies and Services	50,222	35,753
Scholarships and Fellowships	15,218	15,106
Utilities	27	24
Depreciation	5,746	5,597
Total	$ 118,868	$ 104,179

11. Retirement Plan

Association and University personnel participate in a contributory retirement plan administered by the University. The University of Louisville 403(b) Retirement Plan (Retirement Plan) was established by the University and approved by the Board of Trustees. Permanent, full-time employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. Eligible employees not contributing to the Retirement 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 Retirement Plan requires three years of continuous service for employees to vest in employer contributions.

The Association recorded expenses related to the defined contribution plan of approximately $2.0 million and $2.0 million for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Association had no outstanding liability related to the Retirement Plan.

12. Postemployment Healthcare Benefits

a. Plan Description

University and Association personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. 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.

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.

At July 1, 2017, the following employees were covered by the benefit terms.

Inactive plan members	1,441
Active plan members	5,546
Total	6,987

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, 2018 and 2017, the University contributed approximately $3.3 million and $3.0 million to the Plan, approximately 80% and 78% of total premiums, respectively; of the University's contribution, $0.2 million and $0.1 million was attributed to the Association. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million and $0.9 million, approximately 20% and 22% of total premiums for the years ended June 30, 2018 and 2017, respectively, through their required monthly contributions according to the schedules below:

2018				
	PPO	**EPO**	**PCA High**	**PCA Low**
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

2017				
	PPO	**EPO**	**PCA High**	**PCA Low**
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2018 and 2017, the University contributed $1.9 million and $1.7 million for Medicare-eligible retirees, respectively.

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

The University's total OPEB liability was measured by an actuarial valuation as of June 30, 2017. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.58%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	8.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 4.5% for 2026 and later years

The investment rate of return is shown as not applicable (NA) since the University contributes only the amount necessary to pay current benefits. The discount rate is 3.5% as of the Measurement Date, 2.85% as of the beginning of the Measurement Period.

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):

		Total OPEB Liability
Balances at 6/30/2017	$	92,022
Changes for the year:		
Service cost		5,203
Interest		2,728
Differences between expected and actual experience		(2,608)
Changes of assumptions		(5,495)
Contributions - employer		-
Net investment income		-
Benefit payments		(3,007)
Administrative expense		-
Net Changes		(3,179)
Balances at 6/30/2018	$	88,843

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.58)%	Discount Rate (3.58)%	1% Increase (4.58)%
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (9.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 5.5% for 2026) than the current healthcare cost trend rate:

	1% Decrease (7.1% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.1% decreasing to 4.5%)	1% Increase (9.1% decreasing to 5.5%)
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

For the year ended June 30, 2018 the University recognized OPEB expense of $6,985. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (2,303)
Changes of assumptions	-	(4,854)
Contributions made in fiscal year ending 6/30/2018 after the measurement date of 6/30/2017	3,384	-
Total	$ 3,384	$ (7,157)

The amount reported as contributions after the measurement date included in deferred outflows will be recognized as benefit payments during the following fiscal year.

Amounts reported as differences between expected and actual experience and changes in assumptions included under deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows on the following page:

Year ended June 30:	
2019	$ (947)
2020	(947)
2021	(947)
2022	(947)
2023	(947)
Thereafter	(2,422)

d. Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was $88.8 million and $92.0 million and there were no assets, resulting in an unfunded net OPEB liability of $88.8 million and $92.0 million as of June 30, 2018 and 2017, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.4 million and $499.0 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 19%, for the years ended June 30, 2018 and 2017, 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.

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 June 30, 2017, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.1% initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2018 and 2017 were due to updates made on expected future health claims and an increase in the discount rate from 2.85% as of the beginning of the reporting year to 3.58% as of the measurement date.

13. Leases

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, 2018 and 2017 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. Additional space was added, for a period of 10 years, ending December 31, 2024 with annual payments starting at approximately \$80,000, subject to increase each year. Total lease expenses during the years ended June 30, 2018 and 2017 amounted to approximately \$168,000 and \$167,000, 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.

In July 2017 an amendment of the lease was signed extending the term through 2054 and amending the annual rents due to \$2.4 million along with the calculated annual net payment as described below. 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, 2018 and 2017 amounted to approximately \$6.0 million and \$3.4 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, 2018 and 2017 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, 2018 and 2017 amounted to approximately $1.3 million and $1.4 million, respectively.

d. Christ Church Cathedral

In July 2017 the Association executed an Agreement with Louisville Metro Government for a ground lease of Churchill Park athletic fields for an initial term of fifty years with annual payments of $15 thousand per year begin on July 31, 2018 for the term of the agreement. The Association also executed an agreement to acquire reversionary interest in the properties for an initial payment of $0.3 million and payments of $50 thousand over ten years beginning July 31, 2018.

e. Future Minimum Lease Payments

Future minimum lease payments are as follows (in thousands), subject to change with the new lease:

For the years ending June 30,	**Lease Payment Due**
2019	$ 2,721
2020	2,723
2021	2,725
2022	2,726
2023	2,728
2024 - 2028	12,844
2029 - 2033	12,175
2034 - 2038	12,175
2039 - 2043	12,175
2044 - 2048	12,175
2049 - 2053	12,175
2054 - 2058	2,495
2059 - 2063	75
2064 - 2078	60
Future minimum lease payments	$ 89,972

14. Commitments and Contingencies

a. Commitments

At June 30, 2018 and 2017, the Association had approximately $8.4 million and $1.5 million, respectively, in encumbrances for future expenditures, the increase related mainly to timing of certain construction project progress payments.

b. Litigation

The Association has been named as defendant in several lawsuits. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance coverages 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 Association beyond the amounts already provided.

c. Federal Investigation

In September 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 Association cannot be estimated at the time of issuance of the audited financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Fiscal Year Ending
(in thoudands)

		6/30/2018
Total OPEB liability		
Service Cost	$	5,203
Interest		2,728
Difference between expected and actual experience		(2,608)
Changes of assumption		(5,495)
Benefit payments		(3,007)
Net change in OPEB Liabiblity	$	(3,179)
OPEB liability - beginning of year		92,022
OPEB liability - end of year	$	88,843
Covered employee payroll	$	445,356
Total OPEB liability as a percentage of covered employee payroll		19.95%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

CliftonLarsonAllen LLP
CLAconnect.com

Board of Directors
University of Louisville Research Foundation, Inc.
Louisville, Kentucky

We have audited the financial statements of the University of Louisville Research Foundation, Inc. as of and for the year ended June 30, 2018, and have issued our report thereon dated October 25, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by University of Louisville Research Foundation, Inc. are described in Note 1 to the financial statements.

As described in Note 1, the University changed accounting policies related to reporting post-employment benefit liability other than the pension plan by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2018. Accordingly, the cumulative effect of the accounting change is recorded as a restatement of the beginning of the year net position in the business-type activities.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

- Management's estimate of the allowance for doubtful accounts is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, infrastructure, building improvements, intangible assets, and equipment. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the self-insurance accrual is based on historical experience, actuarial inputs and relevant industry data. We evaluated the key factors and assumptions used to develop the accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 25, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

* * *

This communication is intended solely for the information and use of the Board of Directors and management of University of Louisville Research Foundation, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF
LOUISVILLE.

October 25, 2018

CliftonLarsonAllen LLP
600 Washington Avenue
St. Louis, Missouri 63130

This representation letter is provided in connection with your audit of the financial statements of University of Louisville Research Foundation, which comprise the respective financial position as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 25, 2018, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2018, and the following representations as they apply to the financial statements as of and for the year ended June 30, 2017, which were audited by other auditors.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 8, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable

from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.

7. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter

8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

1. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

    e. Access to all audit or relevant monitoring reports, if any, received from funding sources.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management;

    b. Employees who have significant roles in internal control; or

    c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.

6. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

10. We have a process to track the status of audit findings and recommendations.

11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to University of Louisville Research Foundation, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

14. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

18. The financial statements properly classify all funds and activities.

19. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

20. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

21. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

22. Provisions for uncollectible receivables have been properly identified and recorded.

23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

26. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

27. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

28. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

29. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: Neeli Bendapudi Title: PRESIDENT 10/25/18

Signature: [illegible] Title: VP Finance & Adm

Signature: Walter [illegible] Title: Controller 10/25/18

Signature: [illegible] Title: Director of Accounting & Reporting

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
University of Louisville
University of Louisville Research Foundation
Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS	Effect of misstatements on:			
Description	**Assets**	**Liabilities**	**Fund Balance / Net Assets**	**Net Expense/Revenue and Change in Net Assets / Fund Balance**
Understatement of Revenue due to timing of issuing invoices for ULRF Contract Billing.	$ 568,228			$ (568,228)
Credit balances included in Accounts Payable	657,692	(657,692)		
AR Reserve calculated incorrectly	(487,120)			487,120
Underallowed on Patient A/R	800,000			(800,000)
Net current year misstatements (Iron Curtain Method)	1,538,800	(657,692)	-	(881,108)
Net prior year misstatements	-	-		-
Combined current and prior year misstatements (Rollover Method)	$ 1,538,800	$ (657,692)	$ -	$ (881,108)
Financial statement totals	$ 110,123,000	$ 91,793,000	$ 18,330,000	$ (15,146,000)
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	1%	-1%		6%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	1%	-1%		6%

UNIVERSITY OF LOUISVILLE
RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

Auditor’s Report and Financial Statements
June 30, 2018 and 2017

UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

Table of Contents:

INDEPENDENT AUDITORS' REPORT

Board of Directors
University of Louisville Research Foundation, Inc.
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Louisville Research Foundation, Inc. (Research Foundation), a component unit of the University of Louisville, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Research Foundation'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Research Foundation as of June 30, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During fiscal year ended June 30, 2018, the Research Foundation adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of this standard, the Research Foundation reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Prior Year Financial Statements

The 2017 financial statements of the Research Foundation were audited by other auditors whose report dated October 19, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12, and the Schedule of Funding Progress on Page 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Research Foundation, Inc. (Research Foundation) for the years ended June 30, 2018, 2017, and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Research Foundation is a nonprofit corporation affiliated with the University of Louisville (University), a state-supported metropolitan research university located in Kentucky's largest city. 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.

The University's strategic plan guides the Research Foundation's program. The Research Foundation accepts funding for research, training, and service from extramural sources and has maintained progress towards the goals established by the Kentucky Council on Postsecondary Education. During the fiscal year ended June 30, 2018, total awards were $137.9 million, a decrease of $9.9 million or 6.7%, as compared to fiscal year 2017. Some of the funding highlights include:

- $3.6 million from the Kentucky IDeA Networks of Biomedical Research Excellence;
- $2.8 million from National Institutes of Health (NIH) for Protection of Ischemic Mocardium – Administrative Core;
- $2.5 million from NIH for Functional Microbiomics IAA Administrative Care;
- $2.3 million from the NIH for Griffithsin-based Rectal Microbicides for Prevention of Viral Entry.

Using the Financial Statements

The Research Foundation's financial report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The Research Foundation is presented here as a single entity and is also included in the financial statements of the University.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities*, requires the Research Foundation to present a classified Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. Significant presentations under GASB Statement No. 35 with respect to the Research Foundation financial statements are as follows:

- Revenues and expenses are categorized as either operating or nonoperating. Certain revenues, including state appropriations, gifts, Pell and similar nonexchange grants, and investment income (loss) are considered nonoperating, as defined by GASB Statement No. 35. The Research Foundation's nonoperating revenues consist mainly of $46.3 million and $44.6 million in nonexchange grants and contract revenue for the years ended June 30, 2018 and 2017, respectively. These revenues relate to nonexchange transactions in which the Research Foundation is the beneficiary.

- Unexpended cash advances received for grants and sponsored programs are recorded as grant advances rather than as income when received. Such grant advance balances totaled $4.2 million and $2.6 million as of June 30, 2018 and 2017, respectively.

- Capital assets are depreciated and reported net of accumulated depreciation. The Research Foundation's capital assets as of June 30, 2018 and 2017 consist primarily of buildings, equipment and library materials with a net position value of $57.7 million and $61.7 million, respectively.

Financial Highlights

The Research Foundation's financial position remains stable at June 30, 2018, with total assets of $108.9 million and liabilities of $89.1 million as compared to June 30, 2017 at $105.9 million of total assets and $56.0 million of liabilities. Net position, which represents the residual interest in the Research Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, was $18.3 million and $49.9 million for the years ended June 30, 2018 and 2017, respectively.

Operating revenues amounted to $379.9 million and $363.1 million and operating expenditures were $428.3 million and $415.7 million resulting in a net operating loss of $48.3 million and $52.5 million for the years ended June 30, 2018 and 2017, respectively. When adjusted for net nonoperating revenues of $33.2 million and $40.4 million, net position of the Research Foundation decreased by $15.1 million and $12.1 million for the years ended June 30, 2018, and 2017, respectively.

Statements of Net Position

The statements of net position present the financial position of the Research Foundation at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position (the difference between assets, liabilities, deferred outflows of resources and deferred inflows of resources) provides a snapshot of the current financial condition of the Research Foundation at the end of a fiscal year. Items on the Statements of Net Position are generally measured using current values. The change in net position indicates whether the Research Foundation accumulated or consumed resources during the year. Capital assets are stated at historical cost less accumulated depreciation.

A condensed version of the Research Foundation's assets, liabilities, and net position at June 30, 2018, 2017, and 2016 is summarized on the following page:

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
ASSETS					
Current assets	$ 44,760	$ 37,763	$ 49,750	$ 6,997	$ (11,987)
Capital assets	57,680	61,726	65,989	(4,046)	(4,263)
Other noncurrent assets	6,443	6,374	719	69	5,655
Total assets	108,883	105,863	116,458	3,020	(10,595)
DEFERRED OUTFLOWS OF RESOURCES	1,240	-	-	1,240	-
LIABILITIES					
Current liabilities	56,723	40,527	41,822	16,196	(1,295)
Noncurrent liabilities	32,348	15,514	12,684	16,834	2,830
Total liabilities	89,071	56,041	54,506	33,030	1,535
DEFERRED INFLOWS OF RESOURCES	2,722	-	-	2,722	-
NET POSITION					
Net investment in capital assets	57,690	61,726	65,989	(4,036)	(4,263)
Restricted - expendable	27,500	24,465	21,791	3,035	2,674
Unrestricted	(66,860)	(36,369)	(25,828)	(30,491)	(10,541)
Total net position	$ 18,330	$ 49,822	$ 61,952	$ (31,492)	$ (12,130)

Assets

Current assets of $44.8 million consist of $44.1 million of accounts receivable that are to be collected within the next year. Current accounts receivable increased by $7.3 million, $4.6 million in clinical activities and $2.7 million in grant and contract activities.

Noncurrent assets consist mainly of $57.7 million of capital assets, which decreased due to $6.5 million in depreciation offset by additional capital asset purchases of $2.5 million.

Deferred Outflows of Resources

Deferred outflow of resources represents a consumption of net assets applicable to a future period. The balance of $1.2 million as of June 30, 2018 consisted of future payments to be made for other post-employment benefits.

Liabilities

The Research Foundation’s current liabilities consist of amounts due to the University of $40.0 million for funding of operational expenses. This amount increased $18.0 million from the prior year. Additionally, current liabilities include $4.2 million of unexpended cash advances for sponsored research activities, an increase of $1.5 million compared to June 30, 2017. The Research Foundation is required to set up a liability when awards are paid in advance, as they are responsible for paying back any unused funds to the sponsor. The remaining $12.6 million of current liabilities relates to trade accounts payable and other accrued liabilities. The Research Foundation’s allocated portion of other post-employment benefits totals $32.3 million, shown as other long-term liabilities and increased by $16.8 million due to the adoption of GASB 75 as further described in the footnotes to the financial statements.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. The balance of $2.7 million is related to a change in actuarial assumptions and the difference between expected and actual experience used in the other postemployment benefit liability with the adoption of GASB 75.

Net Position

Net position represents the residual interest in the Research Foundation's assets after liabilities are deducted. The Research Foundation's net position at June 30, 2018 and 2017 was $18.3 million and $49.8 million, respectively. Net position is summarized into the three major categories in accordance with GASB Statement No. 35 and GASB Statement No. 63 reporting requirements as follows:

Net Investment in Capital Assets

The Research Foundation's net investments in capital assets represents construction in progress, buildings, equipment and depreciable library materials, net of accumulated depreciation. There is no debt attributable to the acquisition, construction or improvement of those assets. Capital assets decreased by $4.0 million from 2017. This decrease reflects $6.5 million of depreciation and addition of capital assets of $2.5 million.

Restricted Expendable Net Position

Restricted expendable net position represents funds primarily from fixed payment contracts that are subject to externally imposed restrictions governing their use. Net position results from the excess of contract revenues over expenses incurred through June 30, 2018. The amounts remain restricted until the contract is completed.

Restricted expendable net position increased $3.0 million, or 12%. The overall increase is due mainly to an increase in nongovernmental grants.

Unrestricted Net Position

Unrestricted net position decreased by $15.1 million before the adoption of GASB 75 which restated opening net position by $16.3 million. The decrease in unrestricted net position results primarily from actual operating expenses exceeding clinical services and fixed contract revenues.

The adoption of new accounting requirements for other post-employment benefits resulted in the restatement of unrestricted net position as of June 30, 2018 by a reduction of $16.3 million. The restatement is not represented in the June 30, 2017 financial statements.

Fiscal Year 2017

The Research Foundation's financial position as of the fiscal year ended June 30, 2017 shows a decrease in assets and an increase in liabilities with an overall decrease in net position. Assets decreased during the fiscal year ended June 30, 2017 by $10.6 million, or 9%, as compared to the fiscal year ended June 30, 2016. This decrease was due mainly to the $12.3 million decrease in current accounts receivable. The increase in liabilities of $1.5 million mainly resulted from the increase in other postemployment benefits..

Net position decreased $12.1 million, or 19.6%, due mainly to total operating expenses exceeding total revenues.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses and changes in net position present the Research Foundation's results of operations. A condensed version of the Research Foundation's revenues, expenses and changes in net position for the years ended June 30, 2018, 2017, and 2016 is shown:

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
OPERATING REVENUES					
Clinical services	$ 248,244	$ 245,135	$ 233,981	$ 3,109	$ 11,154
Grants and contracts	98,424	89,728	103,121	8,696	(13,393)
Facilities and administrative cost recoveries	27,035	25,064	24,611	1,971	453
Other operating revenues	6,224	3,214	3,897	3,010	(683)
Total operating revenues	379,927	363,141	365,610	16,786	(2,469)
OPERATING EXPENSES					
Depreciation	6,537	7,072	7,914	(535)	(842)
Other operating expenses	421,718	408,596	401,675	13,122	6,921
Total operating expenses	428,255	415,668	409,589	12,587	6,079
Operating loss	(48,328)	(52,527)	(43,979)	4,199	(8,548)
NONOPERATING REVENUES (EXPENSES)					
Nonexchange grants and contracts	46,349	44,629	43,417	1,720	1,212
Other nonoperating revenues	(13,167)	(1,741)	(7,118)	(11,426)	5,377
Total nonoperating revenues	33,182	40,397	33,211	(7,215)	7,186
Decrease in net position	(15,146)	(12,130)	(10,768)	(3,016)	(1,362)
NET POSITION					
Net position, beginning of year	49,822	61,952	72,720	(12,130)	(10,768)
Cumulative effect of change in accounting principle	(16,346)	-			-
Net position, end of year	$ 18,330	$ 49,822	$ 61,952	$ (15,146)	$ (12,130)

Operating Revenues

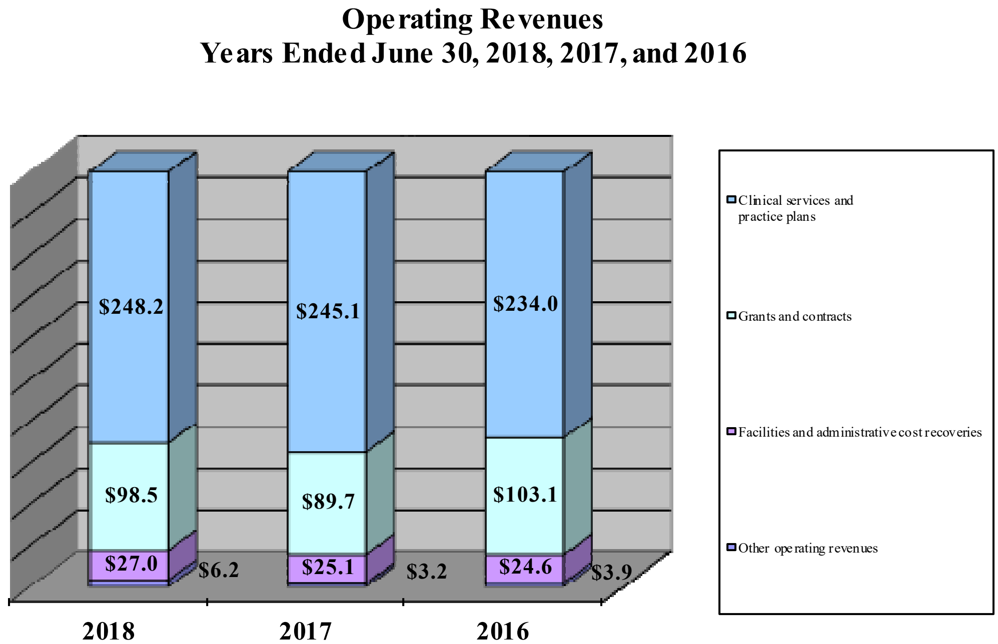
The Research Foundation recognized $379.9 million in operating revenues for the year ended June 30, 2018. This represents an increase of $16.8 million, or 5% in revenues from the $363.1 million reported for the year ended June 30, 2017.

Revenues from clinical services were $248.2 million for the year ended June 30, 2018. This is an increase of approximately $3.1 million, or 1%, compared to $245.1 million in similar revenues reported for the year ended June 30, 2017. The majority of the increase is attributed to increases in Medicaid related patient and intergovernmental transfers.

Revenues from grants and contracts were $98.4 million for the year ended June 30, 2018 as compared to $89.7 million in revenues reported in the previous year. This includes an increase of $5.0 million in nongovernmental grants and contracts and an increase of $4.1 million in federal grants and contracts.

Revenue from facilities and administrative cost recoveries were $27.0 million and $25.1 million for the years ended June 30, 2018 and 2017, respectively. The Research Foundation, compensates the University for a portion of the cost recoveries in support of University expenditures. For the years ended June 30, 2018 and 2017, approximately $11.8 million and $10.9 million, respectively, were transferred to the University for this purpose.

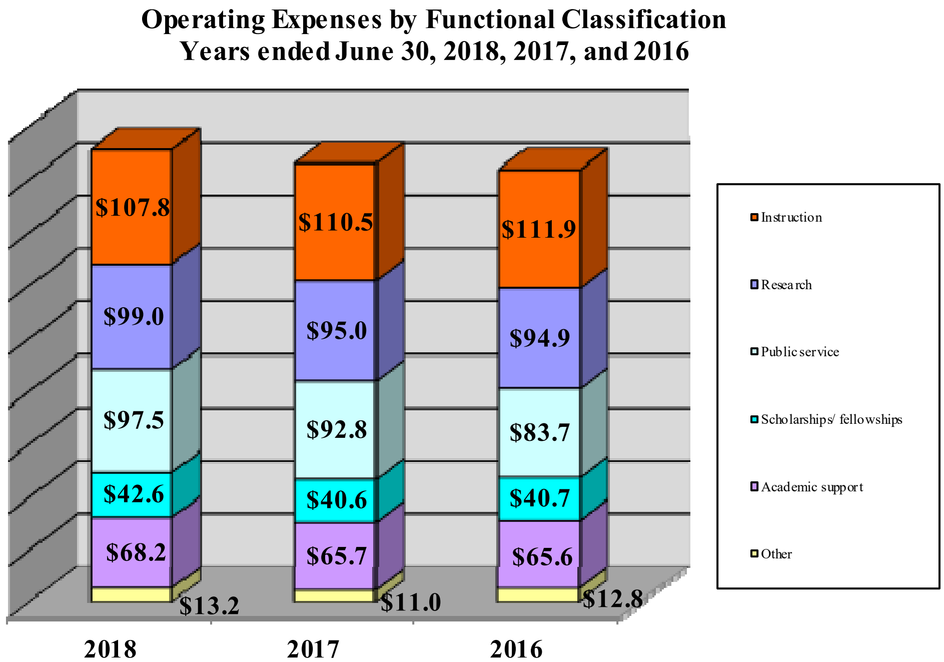
The following is a graphic illustration of the Research Foundation's operating revenues by major source for the years ended June 30, 2018, 2017, and 2016 (in millions).



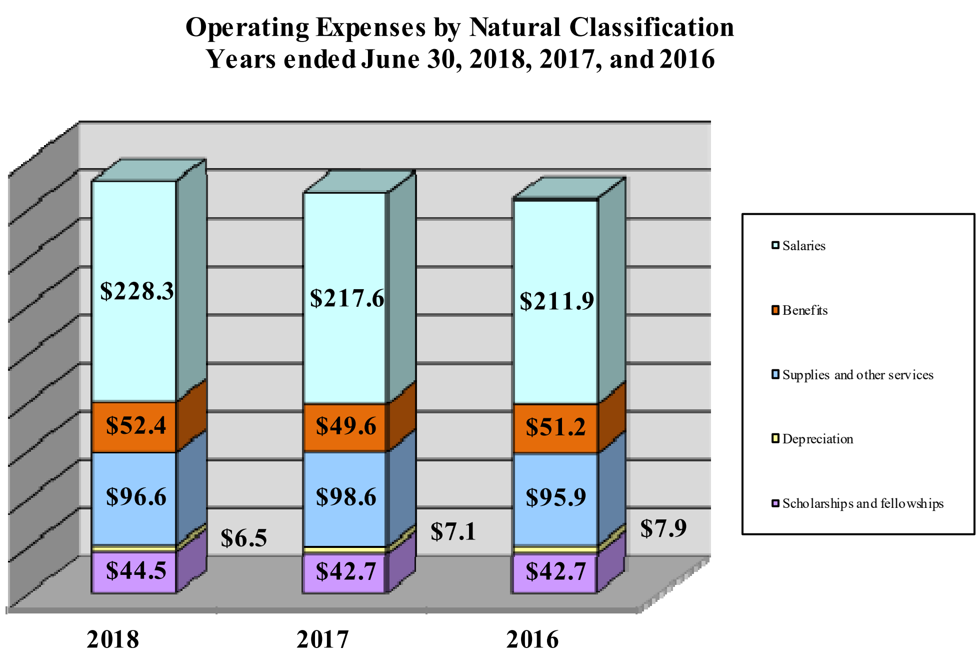
Operating Expenses by Functional and Natural Class

Total operating expenses were $428.3 million and $415.7 million for the fiscal years ended June 30, 2018 and 2017, respectively. The primary reason for the increase of $12.6 million, or 2.9%, is an increase of $10.7 million in salary expense as shown in the operating expenses by natural classification chart on the following page. Expenses in functional classification for instruction, research and public service all increased due to the increases in salaries.

The following is a graphic illustration of total operating expenses by function for the years ended June 30, 2018, 2017 and 2016 (in millions):



The following is a graphic illustration of total operating expenses by natural classification for the years ended June 30, 2018, 2017 and 2016 (in millions):



Nonoperating Revenues (Expenses)

The Research Foundation's total nonoperating revenues of $33.2 million for fiscal year ended June 30, 2018, was mostly comprised of nonexchange grants and contract revenues of $46.3 million and transfer expenses of $14.3 million. Total nonoperating revenues decreased by $7.2 million as compared to fiscal year ended June 30, 2017. The decrease is attributed to a decrease in other nonoperating income of $1.3 million and 0.4 million in gifts. The decrease was offset by an increase in nonexchange grants and contracts of $1.7 million in fiscal year ending June 30, 2018.

Fiscal Year 2017

For the year ended June 30, 2017, Research Foundation reported $363.1 million in operating revenues, a decrease of $2.5 million, or 1% compared to the $365.6 million reported for the year ended June 30, 2016.

Revenues from clinical services were $245.1 million for fiscal year 2017, an increase of $11.2 million or 5% from the fiscal year ended June 30, 2016. The majority of the increase is attributed to increases in Medicaid related patient and intergovernmental transfers.

Revenue from facilities and administrative cost recoveries were $25.1 million and $24.6 million for the years ended June 30, 2017 and 2016, respectively. The Research Foundation transferred approximately $10.9 million and $10.0 million during the years ended June 30, 2017 and 2016, respectively, in recognition of indirect support provided by the University.

Total operating expenses were $415.7 million and $409.6 million for the fiscal years ended June 30, 2017 and 2016, respectively. The increase of $6.1 million, or 1%, was an increase in salary expense.

Statements of Cash Flows

The statements of cash flows provide information about the Research Foundation's cash position by reporting the sources and uses of cash during the year. Cash inflows and outflows are categorized as operating, noncapital financing, capital financing and investing activities.

Condensed statements of the Research Foundation's cash flows for the years ended June 30, 2018, 2017, and 2016, are summarized on the following page:

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
Cash (used)/provided by:					
Operating activities	$ (48,963)	$ (26,890)	$ (49,994)	$ (22,073)	$ 23,104
Noncapital and related financing activities	51,458	29,710	53,750	21,748	(24,040)
Capital financing activities	(2,534)	(2,877)	(3,809)	343	932
Investing activities	39	57	53	(18)	4
Net decrease in cash	-	-	-	-	-
Cash and cash equivalents, beginning of year	-	-	-	-	-
Cash and cash equivalents, end of year	$ -	$ -	$ -	$ -	$ -

Operating Activities

The Research Foundation's operating activities used approximately $49.0 million of cash during the fiscal year ended June 30, 2018, representing an increase of $22.1 million compared to the prior year. The most significant increases were in cash outflows for salaries and benefits of $29.5 million offset by an increase in clinical services of $7.6 million from operations during the fiscal year ended June 30, 2018.

Other Activities

The $51.5 million cash provided by noncapital and related financing activities relates mainly to the $46.3 million provided by nonexchange grants and contracts. It also includes the Research Foundation's transfer of $14.3 million to the University as reimbursement for indirect charges to support the use of buildings and labs and support from the University of $18.3 million for operating revenue shortfalls. In total, cash provided by noncapital and related financing activities increased $21.7 million from the fiscal year ended June 30, 2017.

Cash used for capital financing activities decreased $0.3 million to $2.5 million during the fiscal year ended June 30, 2018, due to a decrease in capital assets purchased. Cash used for capital financing activities decreased $0.9 million during the fiscal year ended June 30, 2017.

Fiscal Year 2017

The Research Foundation operating activities used approximately $26.9 million of cash during the fiscal year ended June 30, 2017, representing a decrease of $23.1 million compared to the cash used for operations in the prior year. While all categories of operating activities experienced an increase in cash activities the most significant were the increase in cash inflow from clinical services for $11.8 million and the decrease in cash outflow for payments to suppliers of $2.2 million from operations during the fiscal year ended June 30, 2017.

The $29.7 million cash provided by noncapital and related financing activities relates mainly to the $44.6 million provided by nonexchange grants and contracts and an increase in funding from the University of $10.6 million. It also includes the Research Foundation's transfer of $7.1 million to the University as reimbursement for indirect charges to support the use of buildings and labs. In total, cash provided by noncapital and related financing activities increased $0.9 million from the fiscal year ended June 30, 2016.

Economic Factors that May Affect the Future

The University is committed to achieving preeminence as a nationally recognized metropolitan research university and as an institution recognized for excellence in education, as well as pioneering in research and scholarly activity. 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:

- The US economy appears to have strengthened over the most recent year with many positive trends in key economic indicators. Moderate growth in GDP and a continuing improved unemployment picture suggest a stable near-term economic outlook for the country. However, slight inflationary movements and upticks in interest rates may create wage rate pressure and increase the cost of borrowing.

- At present, current administration has held firm funding to the National Institutes of Health (NIH), which funds many research project across the country including at UofL, and the amount of overhead that universities can recover for supporting federally-funded research. However, the administration continues to assess ways to "stretch" funding dollars further using different methods. The University continues to monitor the situation.
- The economic outlook for the Commonwealth of Kentucky also appears to have strengthened over the most recent year with the exception of the state's public pension system. The final fiscal year 2018 General Fund receipts increased 3.4 percent over 2017 and rose for the eighth consecutive year. Personal income grew by 3.7 percent in the fourth quarter of 2018 and is expected to grow at a solid rate of 4.9 percent over the next three quarters. Red flags still exist due to the mismatch between middle-wage employment and the skill level of the unemployed. Also, Kentucky's earned income relative to the U.S. is only at 73 percent, which ranks 47th among the states.
- Kentucky's public universities continue to face increasingly difficult business conditions rooted in state funding reductions. Large pension burdens weighing on the Commonwealth of Kentucky are expected to lead to further cuts in state appropriations for higher education. Kentucky is working on improving its overall budget through measures that include tax reform and comprehensive pension reform. Tax reform enacted in 2018 establishes a 5% flat income tax rate for individuals and corporations, broadens the sales tax base to include tax on certain services and increases the cigarette tax.
- It is expected that state performance funding systems will continue to expand whereby institutions are incentivized to improve student outcomes based on priorities (metrics) identified by the state. Performance-based funding ads an element of budgetary uncertainty for the university. Kentucky first implemented a performance-funding model in 2017. Under existing statue, public universities and colleges will not lose state funds based on performance through 2019. In 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 other universities.
- The projected high school graduate population in the near- and medium-term future is strong through 2026. Institutions focused on first-time, full-time baccalaureate degree-seeking students will be gearing up and recruiting hard during the three year period 2024 to 2026 when graduation rates are expected to peak. However, between years 2027 and 2032, the average graduating class size is expected to decline to levels similar to 2013 which will heighten competition and constrain tuition revenue.

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 Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Net Position
As of June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current Assets:		
Accounts receivable, net	$ 44,065	$ 36,730
Due from Affiliate	65	296
Inventories	412	455
Other assets	218	282
Total current assets	44,760	37,763
Noncurrent Assets:		
Accounts receivable, net	811	742
Other long-term assets	2	2
Due from Affiliate	5,630	5,630
Capital assets, net	57,680	61,726
Total noncurrent assets	64,123	68,100
Total assets	108,883	105,863
DEFERRED OUTFLOWS OF RESOURCES	1,240	-
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	12,580	16,014
Due to University of Louisville	39,988	21,904
Grant advances	4,155	2,609
Total current liabilities	56,723	40,527
Noncurrent Liabilities:		
Other long-term liabilities	32,348	15,514
Total noncurrent liabilities	32,348	15,514
Total liabilities	89,071	56,041
DEFERRED INFLOWS OF RESOURCES	2,722	-
NET POSITION		
Net investment in capital assets	57,690	61,726
Restricted - expendable for:		
Research	19,873	16,799
Instruction	634	7
Public service	2,897	3,981
Scholarships and fellowships	278	3
Academic support	6	6
Institutional Support	3,740	3,669
Operation and Maintenance	72	-
Unrestricted	(66,860)	(36,369)
Total net position	$ 18,330	$ 49,822

See notes to the financial statements

University of Louisville Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Clinical services, net of contractual allowances of $96,364 in 2018 and $92,300 in 2017	$ 248,244	$ 245,135
Federal grants and contracts	72,469	68,362
State and local grants and contracts	8,191	8,603
Nongovernmental grants and contracts	17,764	12,763
Other operating revenue	6,224	3,214
Facilities and administrative cost recoveries	27,035	25,064
Total operating revenues	379,927	363,141
OPERATING EXPENSES		
Instruction	107,818	110,507
Research	98,992	94,950
Public service	97,489	92,794
Scholarships and fellowships	42,598	40,553
Academic support	68,186	65,717
Institutional support	7,040	3,598
Operation and maintenance of plant	(468)	464
Depreciation	6,537	7,072
Student services	64	8
Service centers	(1)	5
Total operating expenses	428,255	415,668
Operating loss	(48,328)	(52,527)
NONOPERATING REVENUES (EXPENSES)		
Gifts	503	886
Nonexchange grants and contracts	46,349	44,629
Investment income	-	8
Net realized and unrealized gain on investments	39	57
Other nonoperating income	552	1,902
Net nonoperating revenues	47,443	47,482
Contributions to related entities	(14,261)	(4,594)
Contributions to Affiliate	-	(2,491)
Total other revenues	33,182	40,397
Decrease in net position	(15,146)	(12,130)
NET POSITION		
Net position - beginning of year	49,822	61,952
Cumulative effect of change in accounting principle	(16,346)	-
Net position - end of year	$ 18,330	$ 49,822

See notes to the financial statements

University of Louisville Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Clinical services	$ 248,345	$ 240,755
Grants and contracts	100,308	101,386
Facilities and administrative cost recoveries	27,035	25,064
Other operating revenue	6,224	3,212
Payments to employees	(236,302)	(212,169)
Payments for benefits	(50,267)	(46,774)
Payments for scholarships and fellowships	(44,493)	(42,707)
Payments to suppliers	(99,813)	(95,657)
Net cash used by operating activities	(48,963)	(26,890)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions to/from related entities	(14,261)	(7,085)
Gifts	503	886
Nonexchange grants and contracts	46,349	44,628
Due to (due from) University of Louisville	18,315	(10,630)
Other noncapital financing activity	552	1,911
Net cash provided by noncapital and related financing activities	51,458	29,710
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(2,534)	(2,877)
Net cash used by capital and related financing activities	(2,534)	(2,877)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	39	57
Net cash provided by investing activities	39	57
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents - beginning of year	-	-
Cash and cash equivalents - end of year	$ -	$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	$ (48,328)	$ (52,527)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,537	7,072
Loss on disposal of equipment	44	67
Changes in assets and liabilities:		
Accounts receivable, net	(7,405)	12,294
Inventories	42	(60)
Other assets	65	24
Accounts payable and accrued liabilities	(3,434)	2,739
Grant advances	1,546	673
Other long-term liabilities	488	2,828
Deferred outflows	(1,240)	-
Deferred outflows	2,722	-
Net cash used by operating activities	$ (48,963)	$ (26,890)

See notes to the financial statements

University of Louisville Research Foundation, Inc.

A Component Unit of the University of Louisville

Notes to Financial Statements

June 30, 2018 and 2017

1. Organizations and Summary of Significant Accounting Policies

The University of Louisville Research Foundation, Inc. (the Research Foundation) is affiliated with the University of Louisville (the University) through common management and substantially the same Board of Directors. The Research Foundation is consolidated into the University's financial statements. The Research Foundation is a separate corporation organized for the purpose of conducting the research, clinical operations, and other sponsored activities of the University. The significant accounting policies followed by the Research Foundation are described below.

a. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The financial statements of the Research Foundation can be found online at the following:
http://louisville.edu/finance/controller/univacct/finst-1

b. Cash and Cash Equivalents

The Research Foundation considers all investments with an original maturity of three months or less to be cash equivalents.

c. Accounts Receivable

Accounts receivable consists of clinical and sponsored agreement charges. Clinical receivables are comprised of patient and insurance charges. Healthcare entities are charged for contracted staff support services. Sponsored agreement receivables relate to sponsored programs that support the Research Foundation. Accounts receivable are recorded net of estimated uncollectible amounts.

d. Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

e. Capital Assets

Equipment and library books of the Research Foundation are stated at cost or, in the case of donated capital assets, estimated acquisition value at date of receipt from donors.

Movable equipment costing $5,000 and greater and having a useful life greater than one year are capitalized. Renovations to buildings, infrastructure and land improvements, if any, that significantly increase the value or extend the useful life of the structure and are in excess of $100,000 are capitalized. Necessary and routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: buildings - 40 years or componentized using 15-50 years, library books - 10 years, and equipment - 3 to 20 years. The Research Foundation capitalizes, but does not depreciate, works of art and rare books.

Prior to July 1, 2002 it was the policy of the University to record all capital assets purchased by the Research Foundation as property of the University.

f. Deferred Inflows and Outflows of Resources and Net Position

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Foundation reports deferred outflows of resources, deferred inflows of resources and net position in its statement of net position and related disclosures. Deferred outflows of resources of $1.2 million for the year ended June 30, 2018, consist of future payments to be made for other post-employment benefits. Deferred inflows of resources of $2.7 million as of June 30, 2018 consist of changes in the other post-employment benefits liability and will be amortized into expenses in future periods.

It is not practical for the Research Foundation to determine the amounts of all deferred inflows of resources and deferred outflow of resources related to implementation of changes in accounting for other post-retirement benefits as of the beginning of the fiscal year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net other post-employment benefit liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017.

g. Classification of Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) clinical services, (2) grants and contracts, and (3) facilities and administrative cost recoveries.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as 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 Managements Discussion and Analysis-For State and Local Governments*.

h. Net Clinical Services Revenue

The Research Foundation has agreements with third-party payers that provide for payments to the Research Foundation at amounts different from its established rates. Net clinical services revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for the services rendered and includes 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.

i. Grant Advances

The Research Foundation receives revenues relative to sponsored agreements via grants, contracts, or cooperative 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 Research Foundation 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 Research Foundation 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 in the event the project is not completed to the sponsor's satisfaction. These funds, totaling approximately $4.2 million and $2.6 million as of June 30, 2018 and 2017, respectively, are recorded as a liability in the Research Foundation's financial statements as grant advances and recognized as revenue as reimbursable cost are incurred.

j. Compensated Absences

Research Foundation 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 the 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.

k. Net Position

The net position of the Research Foundation is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Research Foundation.

Unrestricted net position consists of the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

l. Government Grants

Support funded by grants is recognized as the Research Foundation 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.

m. Tax Status

As an affiliate of a state institution of higher education, the income of the Research Foundation 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 Research Foundation is subject to federal income tax on any unrelated business income.

n. Use of Estimates

The preparation of the 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 and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

o. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statement of revenues, expense and changes in net position. These reclassifications had no effect on the change in net position.

p. Recent Accounting Pronouncements and Restatement

As of June 30, 2018, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB).

OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Implementation of this Statement required adjustments to the Statement of Net Position reported as of June 30, 2017 by reflecting the cumulative effect of change in accounting principal.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The university elected to early adopt the statement and discontinue capitalization of interest related to the construction of capital assets.

As of June 30, 2018, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB Statement No. 85, *Omnibus 2017.* The Statement addresses practice issues identified during implementation and application of certain GASB Statements of a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

As of June 30, 2018, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

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. 87, *Leases.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

2. Cash and Cash Equivalents

The Research Foundation maintains various deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Research Foundation's deposits or collateral securities may not be returned to it. For administrative convenience, cash balances of the Research Foundation are included in bank accounts maintained by the University. Details of accounting transactions affecting cash are maintained in such a manner as to ensure an appropriate segregation of amounts maintained by each entity.

The University currently uses commercial banks and the Commonwealth of Kentucky (the Commonwealth) as its depositories. Deposits with commercial banks are covered up to the limits 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 deposits is the risk that, in the event of failure of the counterparty to a transaction, a government will not be able to recover the value of the deposits. The Research Foundation does not have a formal policy addressing custodial credit risk.

3. Transactions with Related Entities

a. Contributions with Related Entities

The University provides certain facilities and administrative services to the Research Foundation for a share of the facilities and administrative cost recoveries. The current agreement provides for a transfer of 80%, after certain deductions, of the amount realized. Transfers from the Research Foundation to the University for their portion of cost recoveries totaled \$11.8 million and \$10.9 million for the years ended June 30, 2018 and 2017, respectively. Additional research support transfers to the University totaled \$2.8 million for the year ending June 30, 2018.

The Research Foundation transferred \$1.9 million and \$0.5 million related to capital projects and debt service payments during the years ended June 30, 2018 and 2017, respectively, to the University. These transfers relate to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University.

For each of the years ended June 30, 2018 and 2017, the Research Foundation was the recipient of \$2.1 million and \$6.3 million, respectively, from related entities to assist in funding cost share required by certain sponsored programs and grants.

Additionally, the Research Foundation transferred of $2.7 million and received transfers of $0.4 million from related entities for the years ended June 30, 2018 and 2017, respectively.

The Research Foundation transferred $0 and $2.5 million for the years ended June 30, 2018 and 2017, respectively, to the PMOB, Inc. an affiliate entity, to fund shared construction cost of a pediatric building.

b. Receivables With Related Entities

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 $5.7 million as of June 2018.

c. 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.

4. Accounts Receivable, net

Accounts receivable, net as of June 30, 2018 and 2017, are summarized as follows (in thousands):

	2018		
	Gross Receivable	**Allowance**	**Net Receivable**
Patient care	$ 67,381	$ (41,729)	$ 25,652
Sponsored agreements	20,987	(1,763)	19,224
Total	$ 88,368	$ (43,492)	44,876
Current portion			44,065
Noncurrent portion			$ 811

2017			
	Gross Receivable	Allowance	Net Receivable
Patient care	$ 69,073	$ (48,148)	$ 20,925
Sponsored agreements	18,310	(1,763)	16,547
Total	$ 87,383	$ (49,911)	37,472
Current portion			36,730
Noncurrent portion			$ 742

5. Capital Assets, net

Capital assets at historical cost as of June 30, 2018 and 2017 are summarized as follows (in thousands):

2018					
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 352	$ -	$ -	$ -	$ 352
Subtotal	352	-	-	-	352
Cost - Depreciable					
Building	70,727	-	-	-	70,727
Infrastructure	929	-	-	-	929
Land improvements	237	-	-	-	237
Equipment	85,478	2,519	(1,416)	-	86,580
Leasehold improvements	818	-	-	-	818
Library materials	44	15	-	-	59
Subtotal	158,232	2,534	(1,416)	-	159,351
Total capital assets - cost	158,585	2,534	(1,416)	-	159,702
Accumulated depreciation					
Buildings	20,107	2,877	-	-	22,984
Infrastructure	54	15	-	-	71
Land improvements	46	6	-	-	52
Equipment	75,888	3,631	(1,372)	-	78,147
Leasehold improvements	720	6	-	-	726
Library materials	41	2	-	-	43
Subtotal	96,859	6,537	(1,372)	-	102,023
Capital assets, net	$ 61,726	$ (4,003)	$ (44)	$ -	$ 57,680

	2017				
	Beginning Balance	Additions	Retirements	Transfers (to)/from Affilates	Ending Balance
Cost - Nondepreciable					
Land	$ 352	$ -	$ -	$ -	$ 352
Subtotal	352	-	-	-	352
Cost - Depreciable					
Building	70,727	-	-	-	70,727
Infrastructure	929	-	-	-	929
Land improvements	237	-	-	-	237
Equipment	84,493	2,877	(1,892)	-	85,478
Leasehold improvements	818	-	-	-	818
Library materials	44	-	-	-	44
Subtotal	157,248	2,877	(1,892)	-	158,233
Total capital assets - cost	157,600	2,877	(1,892)	-	158,585
Accumulated depreciation					
Buildings	17,231	2,876	-	-	20,107
Infrastructure	40	15	-	-	55
Land improvements	40	6	-	-	46
Equipment	73,547	4,167	(1,825)	-	75,889
Leasehold improvements	714	6	-	-	720
Library materials	40	2	-	-	42
Subtotal	91,612	7,072	(1,825)	-	96,859
Capital assets, net	$ 65,988	$ (4,195)	$ (67)	$ -	$ 61,726

6. Other Liabilities

Other liabilities of the Research Foundation consisted of the following at June 30, 2018 and 2017 (in thousands):

	2018					
	Beginning Balance (as restated)	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Other postemployment benefits	$ 33,556	$ -	$ (1,208)	$ 32,348	$ -	$ 32,348
Total	$ 33,556	$ -	$ (1,208)	$ 32,348	$ -	$ 32,348

	2017					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Other postemployment benefits	$ 14,337	$ 3,887	$ (1,015)	$ 17,209	$ 1,695	$ 15,514
Total	$ 14,337	$ 3,887	$ (1,015)	$ 17,209	$ 1,695	$ 15,514

The current portion of other postemployment benefits is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2017.

7. Revenues From Clinical Services

a. Clinics and Laboratories

The University's Health Science Center operates various clinics, which generate revenues from the treatment of patients, as well as laboratory services. Net revenues associated with the operations of these clinics totaled approximately $119.6 million and $119.1 million for the years ended June 30, 2018 and 2017, respectively.

b. University of Louisville School of Medicine Practice Plan (the Plan)

The Plan requires each clinical department of the University of Louisville, School of Medicine to establish a departmental entity, which bears the financial obligation pursuant to the Plan. The departmental entity must receive contributions from the faculty practice groups and remit the contributions as specified in the Plan.

The faculty practice groups remit funds in two forms. The first portion, Academic Program Support, as defined in the Plan, is remitted directly to the Research Foundation to support the academic programs in the clinical departments. Academic Program Support remitted to the Research Foundation totaled approximately $0.6 million and $0.0 million for the years ended June 30, 2018 and 2017, respectively. The second portion, the Dean's Fund, is collected from departmental entities and is used by the Dean to provide additional support for the clinical, academic programs and other activities of the Medical School. Amounts remitted to the Research Foundation for the Dean's Fund totaled approximately $3.9 million and $7.0 million for the years ended June 30, 2018 and 2017, respectively.

c. KentuckyOne Health, Inc. Affiliation Agreement

In November, 2012, the University and KentuckyOne Health, Inc. (KentuckyOne) entered into an agreement that calls for, among other things, KentuckyOne to provide funding (salary, benefits, and malpractice coverage) for certain full-time equivalent resident positions over the term of the affiliation agreement at University of Louisville Hospital (Hospital). Funding for residents is determined annually and takes into account (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital, and (c) the clinical load at the Hospital and related facilities. Funding from the affiliation agreements for the years ended June 30, 2018 and 2017 was approximately $66.4 million and $65.6 million, respectively. This agreement addresses the patient care needs of the Hospital's inpatients.

d. Norton Healthcare

In December 17, 2015, Norton Healthcare, Inc., (Norton) and the University of Louisville and the Commonwealth of Kentucky agreed to a Settlement Agreement, a First Amendment to Lease and a First Amendment to Master Affiliation Agreement. These agreements provide 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, 2018 and 2017 was $24.1 million and $20.0 million, respectively.

e. Other Clinical Revenues

The Research Foundation works with other area hospitals by providing support services, such as residents and other staff. Revenues associated with these activities totaled approximately $33.6 million and $33.4 million for the years ended June 30, 2018 and 2017, respectively.

8. Expenses

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 were approximately (in thousands):

	2018	2017
Salaries and wages	$ 228,255	$ 217,599
Employee benefits	52,378	49,645
Supplies and services	96,592	98,645
Depreciation	6,537	7,072
Scholarships and fellowships	44,493	42,707
Total	$ 428,255	$ 415,668

9. Retirement Plan

University personnel participate in a contributory retirement plan administered by the University. The University of Louisville 403(b) Retirement Plan (Retirement Plan) was established by the University and approved by the Board of Trustees. Permanent, full-time employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. Eligible employees not contributing to the Retirement 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 Retirement Plan requires three years of continuous service for employees to vest in employer contributions.

The Research Foundation recorded expenses related to the defined contribution plan of approximately $14.8 million and $14.0 million during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Research Foundation had no outstanding liability related to the Retirement Plan.

10. Postemployment Healthcare Benefits

a. Plan Description

University and Association personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. 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.

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.

At July 1, 2017, the following employees were covered by the benefit terms.

Inactive plan members	1,441
Active plan members	5,546
Total	6,987

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, 2018 and 2017, the University contributed approximately $3.3 million and $3.0 million to the Plan, approximately 80% and 78% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million and $0.9 million, approximately 20% and 22% of total premiums for the years ended June 30, 2018 and 2017, respectively, through their required monthly contributions according to the schedules below:

2018	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 279	$ 208
Employee and Spouse	$ 763	$ 851	$ 583	$ 451

2017	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 279	$ 208
Employee and Spouse	$ 763	$ 851	$ 583	$ 451

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2018 and 2017, the University contributed $1.9 million and $1.7 million for Medicare-eligible retirees, respectively.

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

The University's total OPEB liability was measured by an actuarial valuation as of June 30, 2017. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.58%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	8.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 4.5% for 2026 and later years

The investment rate of return is shown as not applicable (NA) since the University contributes only the amount necessary to pay current benefits. The discount rate is 3.5% as of the Measurement Date, 2.85% as of the beginning of the Measurement Period.

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):

	Total OPEB Liability
Balances at 6/30/2017	$ 92,022
Changes for the year:	
Service cost	5,203
Interest	2,728
Differences between expected and actual experience	(2,608)
Changes of assumptions	(5,495)
Contributions - employer	-
Net investment income	-
Benefit payments	(3,007)
Administrative expense	-
Net Changes	(3,179)
Balances at 6/30/2018	$ 88,843

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.58)%	Discount Rate (3.58)%	1% Increase (4.58)%
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (9.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 5.5% for 2026) than the current healthcare cost trend rate:

	1% Decrease (7.1% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.1% decreasing to 4.5%)	1% Increase (9.1% decreasing to 5.5%)
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

For the year ended June 30, 2018 the University recognized OPEB expense of $6,985. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (2,303)
Changes of assumptions	-	(4,854)
Contributions made in fiscal year ending 6/30/2018 after the measurement date of 6/30/2017	3,384	-
Total	$ 3,384	$ (7,157)

The amount reported as contributions after the measurement date included in deferred outflows will be recognized as benefit payments during the following fiscal year.

Amounts reported as differences between expected and actual experience and changes in assumptions included under deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows on the following page:

Year ended June 30:	
2019	$ (947)
2020	(947)
2021	(947)
2022	(947)
2023	(947)
Thereafter	(2,422)

d. Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was $88.8 million and $92.0 million and there were no assets, resulting in an unfunded net OPEB liability of $88.8 million and $92.0 million as of June 30, 2018 and 2017, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.4 million and $499.0 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 19%, for the years ended June 30, 2018 and 2017, 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.

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 June 30, 2017, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.1 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2018 and 2017 were due to updates made on expected future health claims and an increase in the discount rate from 2.85 as of the beginning of the reporting year to 3.58% as of the measurement date.

11. Commitments and Contingencies

a. Commitments

At June 30, 2018 and 2017, respectively, the Research Foundation had approximately $1.0 million and $4.4 million in encumbrance's outstanding related mainly to operational expenses for future expenditures.

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 coverages 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 or the Research Foundation beyond the amounts already provided.

c. Government Grants

The Research Foundation is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditure 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.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Fiscal Year Ending
(in thoudands)

	6/30/2018
Total OPEB liability	
Service Cost	$ 5,203
Interest	2,728
Difference between expected and actual experience	(2,608)
Changes of assumption	(5,495)
Benefit payments	(3,007)
Net change in OPEB Liabiblity	$ (3,179)
OPEB liability - beginning of year	92,022
OPEB liability - end of year	$ 88,843
Covered employee payroll	$ 445,356
Total OPEB liability as a percentage of covered employee payroll	19.95%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

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Board of Trustees
University of Louisville
Louisville, Kentucky

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units of the University of Louisville as of and for the year ended June 30, 2018, and have issued our report thereon dated October 25, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University of Louisville are described in Note 1 to the financial statements.

As described in Note 1, the University changed accounting policies related to reporting post-employment benefit liability other than the pension plan by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in 2018. Accordingly, the cumulative effect of the accounting change is recorded as a restatement of the beginning of the year net position in the business-type activities.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

- Management's estimate of the allowance for doubtful accounts is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of depreciation is based on the estimated useful lives of the buildings, infrastructure, building improvements, intangible assets, and equipment. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the self-insurance accrual is based on historical experience, actuarial inputs and relevant industry data. We evaluated the key factors and assumptions used to develop the accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 25, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 25, 2018.

* * *

This communication is intended solely for the information and use of the Board of Trustees and management of University of Louisville and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF
LOUISVILLE.

October 25, 2018

CliftonLarsonAllen LLP
600 Washington Ave
St. Louis, Missouri 63130

This representation letter is provided in connection with your audit of the financial statements of the University of Louisville and Affiliated Corporations (the University), which comprise the respective financial position of the business-type activities, and aggregate discretely presented component units, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 25, 2018, the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2018, and the following representations as they apply to the financial statements as of and for the year ended June 30, 2017, which were audited by other auditors.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 8, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

5. Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable

from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.

7. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.

8. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

9. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

10. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the entity's name" during the period significantly exceeded the amounts in those categories as of the financial statement date was properly disclosed in the financial statements.

11. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

12. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Investment Derivative Instruments are valued using standard pricing models using current forward rate assumptions and/or volatilities to predict cash flows. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

13. We believe that the actuarial assumptions and methods used to measure other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.

Information Provided

1. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

e. Access to all audit or relevant monitoring reports, if any, received from funding sources.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

   a. Management;

   b. Employees who have significant roles in internal control; or

   c. Others when the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.

6. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

10. We have a process to track the status of audit findings and recommendations.

11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to University of Louisville, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant

agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

14. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

15. The entity has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

16. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

17. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.

19. The financial statements properly classify all funds and activities.

20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

21. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

22. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.

23. Provisions for uncollectible receivables have been properly identified and recorded.

24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.

28. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

29. We have appropriately disclosed the entity's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

30. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

31. With respect to federal award programs:

    a. We are responsible for understanding and complying with, and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) including requirements relating to preparation of the schedule of expenditures of federal awards.

    b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

    c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issued the SEFA and the auditors' report thereon.

    d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.

j. We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).

m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p. There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

q. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditors' report.

r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

s. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

t. We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

u. We have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

v. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

w. We have charged costs to federal awards in accordance with applicable cost principles.

x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

bb. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

Signature: Neeli Bendapudi Title: PRESIDENT

Signature: [illegible] Title: VP Finance & Admin

Signature: [illegible] Title: Controller

Signature: [illegible] Title: Director of Accounting & Reporting

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
University of Louisville
Consolidated Audit
Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS	Effect of misstatements on:			
Description	**Assets**	**Liabilities**	**Fund Balance / Net Assets**	**Net Expense/Revenue and Change in Net Assets / Fund Balance**
AP and Accrued Liabilities incorrect or unsupported balance.		$ 1,010,834		$ (1,010,834)
Incorrect receivable balance from the Foundation	(1,804,000)			1,804,000
Incorrect Travel Allocation	(1,549,393)			1,549,393
Incorrect AR Discount Calculation	3,939,352			(3,939,352)
Addidas Inventory not booked in PY	-	-	(2,610,151)	2,610,151
Net current year misstatements (Iron Curtain Method)	585,959	1,010,834	(2,610,151)	1,013,358
Net prior year misstatements	-	-		-
Combined current and prior year misstatements (Rollover Method)	$ 585,959	$ 1,010,834	$ (2,610,151)	$ 1,013,358
Financial statement totals	$ 1,305,107,000	$ 597,418,000	$ 707,689,000	$ 3,083,000
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	0%	0%	0%	33%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	0%	0%	0%	33%

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Auditor's Report and Financial Statements
June 30, 2018 and 2017

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Table of Contents:

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INDEPENDENT AUDITORS' 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), as of and for the year ended June 30, 2018, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Louisville Physicians, Inc. (ULP), the University Medical Center, Inc. (UMC), the University of Louisville Real Estate Foundation, Inc. (ULREF) and University of Louisville Foundation, Inc. and Affiliates (the Foundation), which comprise the aggregate discretely presented component units of the University. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for ULP, UMC, ULREF and the Foundation is based solely on the reports of the other auditors. We conducted our audit 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, ULREF and the Foundation 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 auditors' 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.

Opinions

In our opinion, based on our audit and the report 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During fiscal year ended June 30, 2018, the University adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of this standard, the University reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Prior Year Financial Statements

The 2017 financial statements of the University were audited by other auditors whose report dated October 19, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis on pages 4 through 18 and the Post-employment Benefit Information on page 91 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Board of Trustees
University of Louisville and Affiliated Corporations

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University of Louisville’s 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 University of Louisville’s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

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, 2018 and 2017. 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, 2018, 2017, and 2016. Net position (the difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources) provides a snapshot of the current financial condition of the University at the end of a fiscal year. Items on the Statements of Net Position are generally measured using current values.

The Statements of Revenues, Expenses, and Changes in Net Position present the total revenues earned and expenses incurred by the University during each of the fiscal years. 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.

Financial Highlights

- The University's financial position remains strong at June 30, 2018, with total assets and deferred outflows of resources of $1.3 billion that exceed total liabilities and deferred inflows of resources of $597.4 million by a ratio of over 2:1, consistent with the ratio as of June 30, 2017. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted was $707.7 million as of June 30, 2018.
- Net position grew by a modest $3.0 million during the year. Unrestricted net position moved to a deficit position in 2018 due to the implementation of adopted GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* GASB 75 as discussed in the notes to financial statements. This reduction in unrestricted net position was offset by appropriations for the acquisition and construction of capital assets.

- Gross tuition and fees were $310.1 million for the year ended June 30, 2018, a decrease of $1.4 million, or 0.5% compared to the $311.6 million reported in the previous year. Overall demand remains strong for the University of Louisville despite national trends to the contrary.
- Total general fund appropriations from the Commonwealth of Kentucky were $133.0 million for the year. State appropriations were down about $1.5 million due to statewide budget cuts in higher education and other areas to offset the impact of the underfunded pension obligation in the Commonwealth of Kentucky.
- Operating revenues amounted to $717.3 million and operating expenses were $1.0 billion resulting in a net operating loss of $315.8 million. When adjusted for $133.0 million in state appropriations and $185.9 million in other net nonoperating revenues, net position of the University increased by $3.0 million for the year ended June 30, 2018. The separation from KentuckyOne Health, Inc. (KOH) as described in the notes to the financial statements was the primary reason for the significant change in operating revenues. Clinical revenues of $65.8 million in 2017 and other operating revenues of $24.4 million in 2017 are related to the KOH separation.
- Operating expenses decreased from $1,071 million to $1,033 million in 2017 and 2018, respectively, despite many one-time and non-recurring charges in 2018. The University had a campus wide focus on reduction in spending that was very effective in the areas of supplies and salaries and wages. The separation from KOH also involved the planned spending of $13.2 million in 2018, which offset some of the other savings realized across campus during 2018. Operating expenses in 2018 also include the settlement of a contractual obligation to the former athletic director of $4.5 million and the buy-out of a coaching contract to obtain a new coach totaling about $5.5 million.
- During the year ended June 30, 2018, the University adopted (GASB 75). This standard establishes the criteria for recognizing and measuring liabilities, deferred outflows, deferred inflows and expense related to other postemployment benefits (OPEB) provided to employees of state and local governments. The adoption of this Standard moved the unrestricted net position to a deficit balance.

Overview – Fiscal Year Ended June 30, 2018

The following is a brief discussion of events during fiscal year 2018 that had substantial or multiple impacts on the financial performance and position of the University:

- The University was able to create permanence in several key leadership positions during 2018 that were previously either vacant or filled through interim appointments.
- Following a competitive negotiation process the University (on behalf of the Commonwealth) and University Medical Center (UMC) entered into a lease of the University of Louisville Hospital (Hospital), an academic affiliation agreement (AAA), and a joint operating agreement (JOA), for the operation of the Hospital. The current JOA with (KOH) ended effective June 30, 2017, and UMC returned to the management of the hospital. The University and KOH agreed to work to reach agreement on a new AAA for University programs at Frazier Rehab Institute (Frazier) and Jewish Hospital (Jewish).

- The University and KOH jointly agreed to the terms of an amended AAA under which KOH would fund 51 FTE resident positions at Jewish and 5 FTE resident positions at Frazier taking into account staffing at comparable healthcare facilities, services provided at Jewish and Frazier and the clinical volume, provided that funding would not be less than $6.3 million during the term without prior written consent of the University. The term of the agreement will be for a period of 18 months through December 31, 2018.

- The University, KOH and University of Louisville Physicians (ULP) are parties to an amended Master Support and Services Agreement, effective July 1, 2017, which sets out KOH's financial commitment to support the academic and clinical programs at the University as well as the parties mutual obligations related to the programs. An amendment to the agreement extended the term through December 31, 2018.

- Capital Projects – During fiscal 2018, progress was made on an expansion and renovation of the Swain Student Activities Center, an expansion of Cardinal Stadium, and new construction of an academic building on Belknap Campus. All three of these facilities opened Fall 2018. Construction began on a new television production studio which was a requirement of joining the Atlantic Coast conference (ACC).

- New Concession Agreements – The University entered into a 13-year service concession agreement with Cannon for the operation of copy centers. The agreement had the effect of increasing short and long-term accounts receivable and deferred inflows.

Statements of Net Position

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
ASSETS					
Current assets	$ 194,090	$ 215,791	$ 258,194	$ (21,701)	$ (42,403)
Long-term investments	1,360	1,560	1,988	(200)	(428)
Capital assets, net	971,395	891,944	868,398	79,451	23,546
Other	128,582	175,801	97,248	(47,219)	78,553
Total assets	1,295,427	1,285,096	1,225,828	10,331	59,268
DEFERRED OUTFLOWS OF RESOURCES	9,680	7,412	6,967	2,268	445
LIABILITIES					
Current liabilities	173,287	171,923	187,106	1,364	(15,183)
Noncurrent liabilities	362,856	322,935	326,023	39,921	(3,088)
Total liabilities	536,143	494,858	513,129	41,285	(18,271)
DEFERRED INFLOWS OF RESOURCES	61,275	49,436	175	11,839	49,261
NET POSITION					
Net investment in capital assets	701,024	660,316	632,787	40,708	27,529
Restricted-nonexpendable	1,633	1,633	1,633	-	-
Restricted-expendable	79,622	84,825	92,009	(5,203)	(7,184)
Unrestricted	(74,590)	1,440	(6,938)	(76,030)	8,378
Total net position	$ 707,689	$ 748,214	$ 719,491	$ (40,525)	$ 28,723

Assets

Current Assets consist primarily of cash; loans, accounts and contributions receivable; and due from affiliates and investments held with University of Louisville Foundation, Inc. (Foundation).

In fiscal year 2018, current assets decreased $21.7 million due primarily to an $11.4 million reduction in investments held with the Foundation, and a $10.0 million decrease in due from affiliates. Unrestricted cash increased by $4.2 million to $80.8 million during 2018. The change in unrestricted cash ended positive despite the planned spending of unrestricted KOH funds of $14.5 million during 2018. Investments held with the Foundation were liquidated in 2018 to provide funding to pay deferred compensation owed to the former athletic director upon his separation from the University of $4.5 million, a settlement with the NCAA upon conclusion of an investigation into the men's basketball team of $563 thousand and a buy-out of contractual obligations for the new men's basketball coach of $5.5 million including taxes. Due from affiliates decreased $10.0 million due to a stream-lined process to receive funding from the Foundation. Inventories were up by $2.5 million to $3.3 million due to Athletic inventories received by the Association related to the new contract with Adidas.

In fiscal year 2017, current assets decreased $42.4 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.

Capital assets, net of accumulated depreciation, represented 75% of total assets as of June 30, 2018. Noncurrent loans, accounts and contributions receivable, restricted cash and cash equivalents, and due from the Foundation comprise the remainder of assets.

Noncurrent assets increased $32.0 million in fiscal 2018 driven by construction and related financing. Capital assets, net increased $79.5 million due mainly to the construction projects already discussed. Offsetting this increase is restricted cash and cash equivalents that decreased $26.9 million due to progress payments to contractors on construction projects, loans, accounts and contributions receivable that decreased $11.7 million, mainly due to the collection of pledges of the Association and for the write-off of a $5.0 million hospital rent receivable under an amended and restated hospital lease with UMC. Due from affiliates decreased $10.0 million for repayment from the University of Louisville Real Estate Foundation (ULREF) of approximately $3.5 million relating to a loan from the University to fund certain real estate purchases and for $5.0 million received from UMC relating to an accounts receivable assigned to the University during negotiations to dissolve the AAA with KOH.

Noncurrent assets increased $101.7 million in fiscal 2017 driven by construction and related financing. Restricted cash and cash equivalents increased $34.7 million for construction bond proceeds. Capital assets increased $23.5 million. Long-term accounts and contributions receivable increased $28.3 million for a $25.7 million receivable related to a new foodservice concession arrangement. Due from affiliates increased $14.6 million mainly due to a $23.9 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.

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, OPEB paid after the actuarial measurement date but before fiscal year end to be expensed in the new year, as well as the fair value of an interest rate swap agreement.

In fiscal year 2018, deferred outflows increased $2.3 million mainly due to amortization of deferred loss on bond refinance of $1.1 million offset by an increase during 2018 totaling $3.0 million in the amount of OPEB paid after the actuarial measurement date and recorded as a deferred outflow. An interest rate swap recognized as a deferred outflow decreased $19 thousand for the increase in the value of the derivative.

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

Liabilities

Accounts payable and accrued liabilities and advances comprise 87% of total current liabilities. Current liabilities increased $1.4 million in fiscal year 2018, primarily due to the $7.5 million increase in accounts payable partially offset by the decrease of $5.7 million in the current portion of bonds and notes payable. Accounts payable increase relates principally to construction projects of the University and the Association. The current portion of bonds and notes payable decreased because of the refinancing of the $10.7 million term loan, reflected as current at June 30, 2017.

In fiscal year 2017, the $15.2 million decrease in current liabilities was principally due to the recognition into revenue of approximately $21.0 million in advances from KOH partially offset by a restated increase in accounts payable of $3.9 million.

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. The $39.9 million increase in noncurrent liabilities in fiscal year 2018 primarily included a $3.9 million decrease in bonds and notes payable, a $45.0 million increase in other long-term liabilities, and a $2.5 million decrease in deferred compensation and wages payable. The decrease in bonds and notes payable was due to normal amortization of the liability offset by the issuance of a master lease totaling $7.2 million for the construction of a TV production studio and for the change in classification to noncurrent of $6.6 million of the term loan due to the refinancing of the loan. The increase in other long-term liabilities relates to the adoption of GASB 75 as disclosed in the notes to the financial statements. The decrease in deferred compensation and wages payable is the result of the payout of benefits to employees of the Association.

In fiscal year 2017, the $3.1 million decrease in noncurrent liabilities includes an increase in long-term debt of $24.2 million associated with the Cardinal Stadium construction, partially offset by advances which decreased $29.2 million as KOH advances are taken into revenue.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. In fiscal year 2018 the University recognized an increase of $4.5 million deferred inflows to reflect future receipts related to foodservice and bookstore concession arrangements with Aramark and Follett, respectively and a new copy center concession arrangement with Cannon. Deferred inflows increased $7.2 million related to a change in actuarial assumptions and the difference between expected and actual experience used in the calculation of the OPEB liability. It will be amortized to OPEB expense over a period equal to the average of the expected remaining service lives of all employees that are provided benefits. The fair market value of an interest rate swap increased to $184 thousand to reflect the positive change in value of the instrument. As the derivative is considered an effective hedging instrument changes in value are recognized as deferred inflows and outflows.

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. Alternately, the fair market value of a prior forward delivery contract for the investment of Association debt service reserves was reduced from $175,000 to $-0- when the associated debt was retired in December.

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 2018, net position increased $3.0 million. Operating loss increased to $315.8 million, an increase of $48.4 million as compared to June 30, 2017. The increased operating loss is principally due to clinical revenues recognized in 2017 related to the cancellation of the AAA with KOH which were non-recurring offset by savings in operating expenses that include salaries, wages, benefits and supplies. State appropriations of $133.0 million and other nonoperating revenues of $185.9 million just offset the operating loss producing an increase in net position totaling $3.0 million. Revenue from contributions from the Foundation improved, increasing $17.2 million due to a change in the way the University received funding and therefore recognized revenue beginning in 2017. In fiscal year 2017 the Foundation adopted an in-arrears funding mechanism with reimbursements beginning only after approximately $20 million in cash reserves were utilized. Capital appropriations increased $22.4 million principally related to the construction of an Academic Building and for improvements to Floyd Street on Belknap Campus. Offsetting the increase in capital appropriations, capital gifts that are mainly related to construction projects of the Association decreased $16.6 million due to the completion of fund raising related to a 3rd expansion of Cardinal Stadium.

In fiscal year 2017, Total Net Position increased $28.7 million as compared to an increase of $12.9 million for 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 the AAA ended. Appropriations and gifts associated with capital projects increased $19.3 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.

Operating expenses for fiscal year 2017 increased by $59.7 million (6%) including $16.0 million in institutional support and $19.2 million in public service. The increase in institutional support is a result of the write-off of a $10.4 million due from affiliate for tiff revenue determined to be uncollectible. Public service increased due to expense increases in programs funded under the academic affiliation agreement with Kentucky One.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
OPERATING REVENUES					
Student tuition and fees, net	$ 217,395	$ 221,626	$ 209,503	$ (4,231)	$ 12,123
Clinical services and practice plan	262,013	335,065	269,420	(73,052)	65,645
Grants and contracts	98,271	90,158	103,417	8,113	(13,259)
Facilities and administrative cost recoveries	27,035	25,064	24,611	1,971	453
Other	112,605	132,149	103,831	(19,544)	28,318
Total operating revenues	717,319	804,062	710,782	(86,743)	93,280
OPERATING EXPENSES					
Depreciation	48,780	48,503	51,295	277	(2,792)
Other	984,386	1,023,034	960,583	(38,648)	62,451
Total operating expenses	1,033,166	1,071,537	1,011,878	(38,371)	59,659
NONOPERATING REVENUES (EXPENSES)					
State appropriations	132,959	134,508	142,213	(1,549)	(7,705)
Other nonoperating revenues	185,971	161,690	171,794	24,281	(10,104)
Total nonoperating revenues	318,930	296,198	314,007	22,732	(17,809)
Increase/(decrease) in net position	3,083	28,723	12,911	(25,640)	15,812
Net position - beginning of year	748,214	719,491	706,580	28,723	12,911
Cumulative effect of change in accounting principle	(43,608)	-	-	-	-
Net position - beginning of year	704,606	719,491	706,580	(14,885)	12,911
Net position - end of year	$ 707,689	$ 748,214	$ 719,491	$ (40,525)	$ 28,723

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 Foundation are considered non-operating revenues.

Student tuition and fees, net of allowances for scholarships and fellowships were $217.4 million and $221.6 million, or 30% and 28% of total operating revenues for the years ended June 30, 2018 and 2017, respectively. The University adopted a 5% gross tuition rate increase in June 30, 2017, and no change in tuition rates for 2018. 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 2018, scholarship and financial aid expense was slightly higher than the prior year and a factor in an overall $4.2 million or 2% decrease in net tuition revenue. In fiscal year 2017, scholarship and financial aid expense was slightly lower than the prior year. This and increased demand resulted in increased tuition for 2017 of $12.1 million and an overall 6.0% increase in net tuition revenue.

Clinical services and practice plan revenue amounted to $262.0 million and $335.1 million, or 37% and 42% of total operating revenues for fiscal years 2018 and 2017, 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. The decrease in revenue for 2018 totaling $73.1 million or 22% resulted from the buyout of the AAA with KOH in fiscal year 2017 and the renegotiation of the hospital lease dated July 1, 2017. Strategic programming revenues from an AAA with KOH has contributed approximately 35% of the growth in clinical revenues over fiscal year ended June 30, 2016.

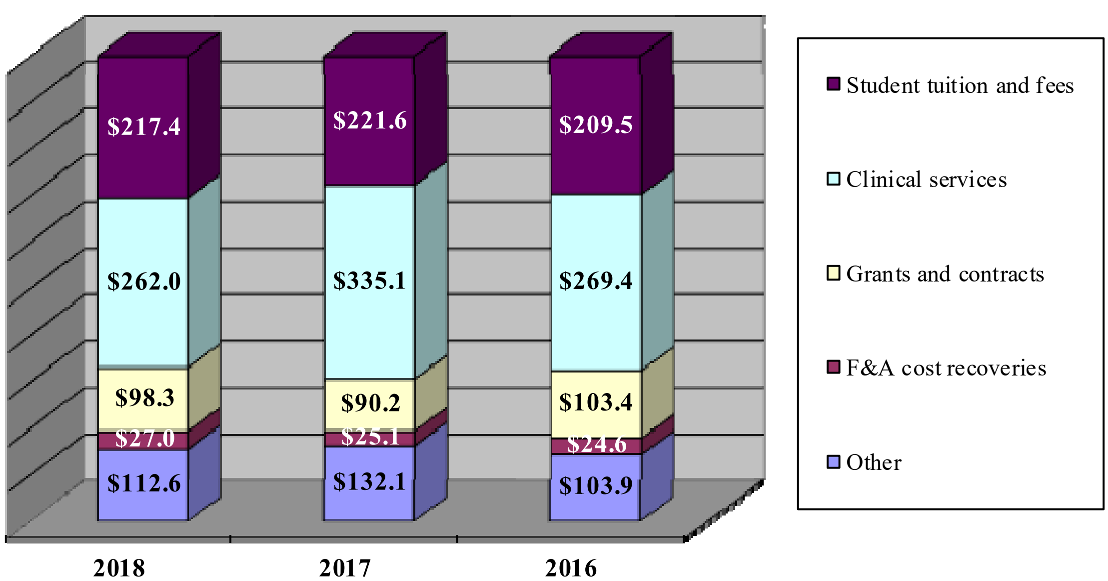
Revenue from grants and contracts were $98.3 million and $90.2 million for the years ended June 30, 2018 and 2017, respectively. This increase reflects improved revenue from Federal and nongovernmental sources. Changes in revenue can also reflect timing of start-up or reimbursement of expenses. During the fiscal year ended June 30, 2018, total awards were $137.9 million, a decrease of $9.9 million or 6.7%, as compared to fiscal year 2017.

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 $27.0 million and $25.1 million for the years ended June 30, 2018 and 2017, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

Other operating revenue decreased $19.5 million in fiscal year 2018. This primarily related to the transfer to the University of an obligation in fiscal year 2017 of $24.4 million that UMC, the University teaching hospital, had to KOH until the dissolution of the AAA which is considered revenue to the University.

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, 2018, 2017, and 2016 (in millions):

Operating Revenues
Years ended June 30, 2018, 2017, and 2016

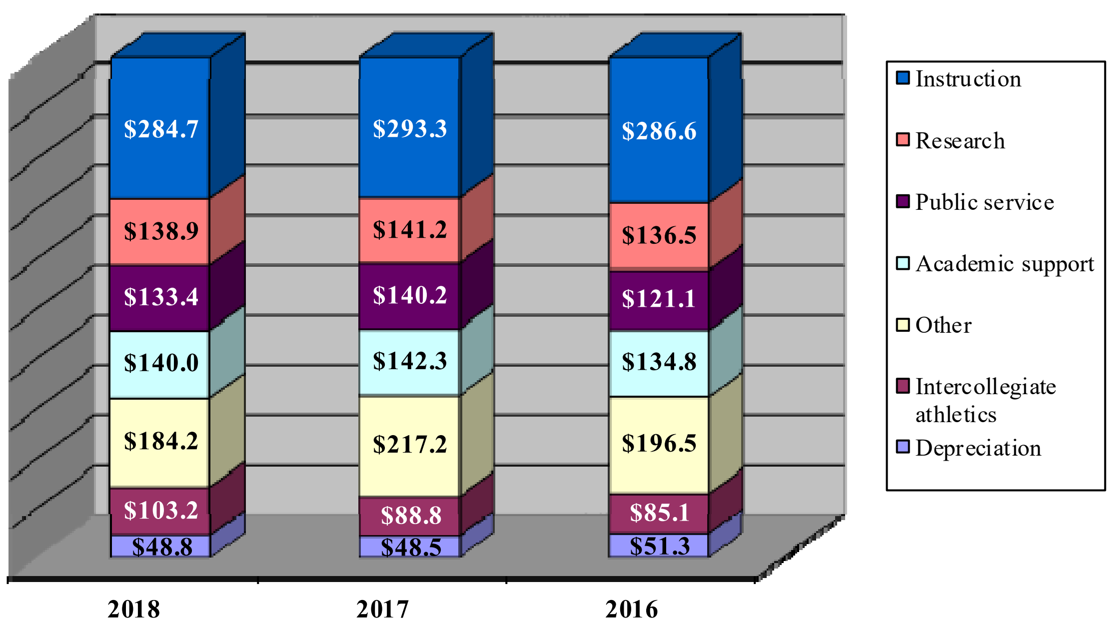


Operating Expenses

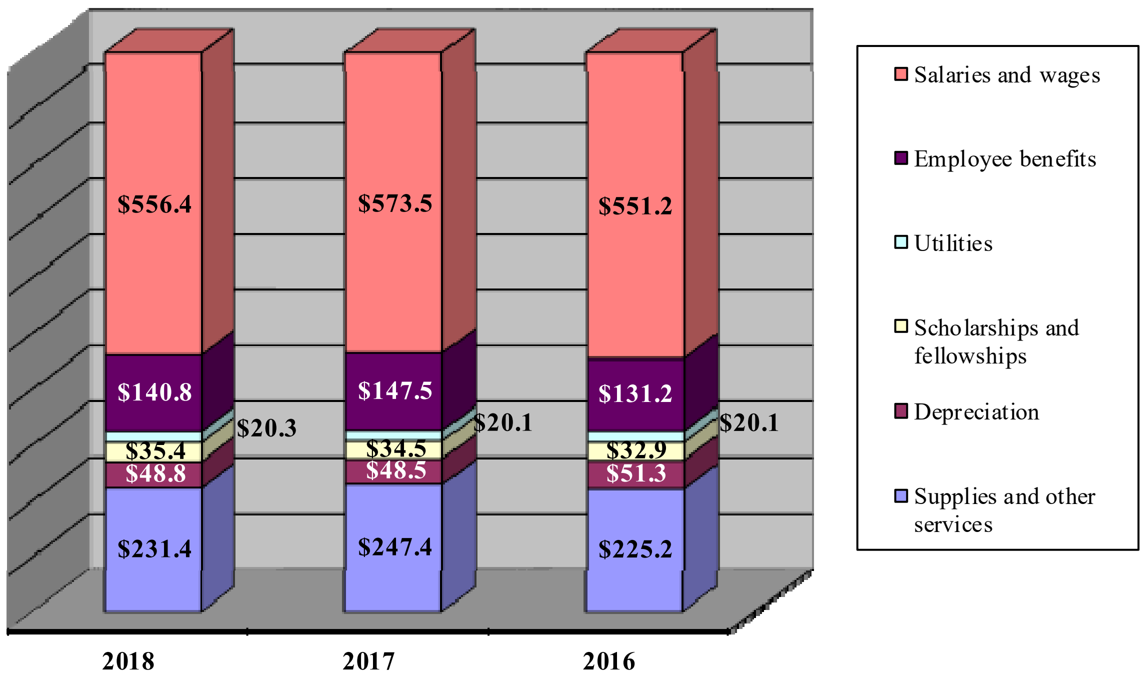
Operating expenses were $1.0 billion and $1.1 billion and exceeded operating revenues by $318.9 million and $267.5 million for the years ended June 30, 2018 and 2017, respectively. In fiscal 2018, operating expenses decreased $38.4 million or 3.6%. Among functional classifications, public service decreased $6.8 million, mainly due to a $10.7 million decrease in hospital programs funded by KOH under the AAA, and institutional support decreased $22.7 million including a $10.4 million write-off during 2017 of a receivable for an underperforming tax increment financing project. Intercollegiate athletics increased by $14.4 million due primarily to payout of a deferred compensation obligation upon separation with its former athletic director of $4.5 million and buy-out of a contract in connection with hiring a new coach totaling $5.5 million including taxes. Overall operating expenses were reduced during 2018 due to a $17.0 million reduction in salaries and wages and an $18.0 million reduction in supplies. Both reductions were part of university-wide efforts during 2018 to reduce manageable spend.

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2018, 2017, and 2016 (in millions) are summarized as follows and on the following page:

Operating Expenses by Functional Classification
Years ended June 30, 2018, 2017, and 2016



Operating Expenses by Natural Classification
Years ended June 30, 2018, 2017, and 2016



Nonoperating Revenues (Expenses)

In fiscal year 2018 net nonoperating revenues and other revenues increased $22.7 million including $14.7 million in contributions from the Foundation, $2.5 million in decreased contributions to the ULREF, and $22.4 million in capital appropriations reduced by a decrease in capital gifts totaling $16.6 million. The increase in contributions from the Foundation was due to fact that the funding mechanism changed for 2017 thus also changing the way the university recognized revenue on these contributions. In years prior to 2017, the University recognized these revenues as received whereas in subsequent years such revenues were recognized as spending occurred. The University was not able to request any funding from the Foundation in 2017 until reserves of $20 million were spent. Capital appropriations recognized include appropriations for the Academic Building of $34.4 million and $18.3 million during 2018 and 2017, respectively. Capital appropriations also includes $9.6 million received in 2018 and $3.3 million received in 2017 to complete improvements to Floyd Street. The decrease in capital gifts relates to timing of the construction projects of the Association for its Stadium expansion.

Net nonoperating revenues and other revenues decreased $17.8 million in fiscal 2017, primarily due to reduced State Appropriations and Contributions from University of Louisville Foundation as described above. State appropriations decreased $7.7 million in fiscal 2017, slightly more than expected. Contributions from the Foundation were down $40.0 million in fiscal 2017 as a result of a change in funding mechanics. The University received and recorded as revenue from the Foundation approximately $20.0 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. Nonoperating revenue decreases were partially offset by a $7.4 million increase in capital gifts related to construction projects of the Association and $11.9 million increase in capital appropriations related to three construction projects underway on campus.

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, 2018, 2017, and 2016 are summarized below:

Condensed Statements of Cash Flows
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
Cash (used)/provided by:					
Operating activities	$ (248,014)	$ (261,736)	$ (251,278)	$ 13,722	$ (10,458)
Noncapital financing activities	305,917	254,591	290,621	51,326	(36,030)
Capital and related financing activities	(86,364)	(15,058)	(53,059)	(71,306)	38,001
Investing activities	5,740	9,730	16,523	(3,990)	(6,793)
Net (decrease)/increase in cash and cash equivalents	(22,721)	(12,473)	2,807	(10,248)	(15,280)
Cash and cash equivalents, beginning of year	139,376	151,849	149,042	(12,473)	2,807
Cash and cash equivalents, end of year	$ 116,655	$ 139,376	$ 151,849	$ (22,721)	$ (12,473)

Total cash and cash equivalents decreased by $22.7 million during 2018. Cash used in operations decreased by $13.7 million during 2018 to $248 million. Cash provided by clinical services and practice plan went from $280.4 million to $267.8 million. The $12.6 million reduction in clinical services was due to an infusion of $37.4 million in strategic funds received in connection with the termination of the AAA with KOH. Payments to suppliers and payments to employees decreased by $10.4 million and $3.5 million due to university wide cost savings initiatives put in place during 2018 to reduce spending. The reductions realized to suppliers and employees were much greater after consideration 2018 of planned spending of $14.5 million of the strategic funds received in 2017. Intercollegiate athletics provided $10.3 million more in operating cash primarily because of increased receipts during 2018.

Cash provided by noncapital financing activities increased $51.3 million. A change in Foundation funding mechanics resulted in $49.7 million more contributions from related entities during the year together with $6.6 million increased cash from gifts and grants partially offset by $4.3 million lower state appropriations. Transfers of gift and endowment funding was being withheld until cash reserves of approximately $20.0 million could be exhausted in 2017. Cash from gifts relates to the collection of pledges of the Association.

The University consumed $86.4 million in cash for capital and related financing, $71.3 million more than prior year. Purchases of Capital Assets increased $37.9 million in fiscal 2018 as the University engaged in three major construction projects. Debt for refinancing and capital projects continued at a slower pace in fiscal 2018 compared to the prior year with $69.7 million lower proceeds from debt. Offsetting these cash uses, cash used for principal repayments decreased $32.8 million. Cash provided by Capital Appropriations and Capital Gifts increased $11.6 million during the year due to timing of construction projects.

Investing activities produced $5.7 million in cash during fiscal year 2018, $4.0 million less than fiscal 2017. Proceeds from maturing investments of $2.9 million were supplemented by cash from investment earnings totaling $2.6 million.

Total Cash and Cash Equivalents decreased by $12.5 million during fiscal year 2017. Operating activities consumed $10.5 million more cash during the year compared to prior year. Notably increased receipts included $11.4 million clinical receipts, $13.9 million auxiliary receipts, and $7.4 million higher receipts for research grants and contracts. These sources of cash were more than offset by payments to employees and payments for benefits of $27.0 million and payments to suppliers of $20.9 million.

Lower cash provided by noncapital financing activity receipts related to a change in Foundation funding mechanics which resulted in $33.1 million lower cash from contribution from the Foundation 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 for principal repayments decreased $44.5 million. Interest payments were also favorable by $3.9 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 the issuance of 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.

Capital Asset and Debt Administration

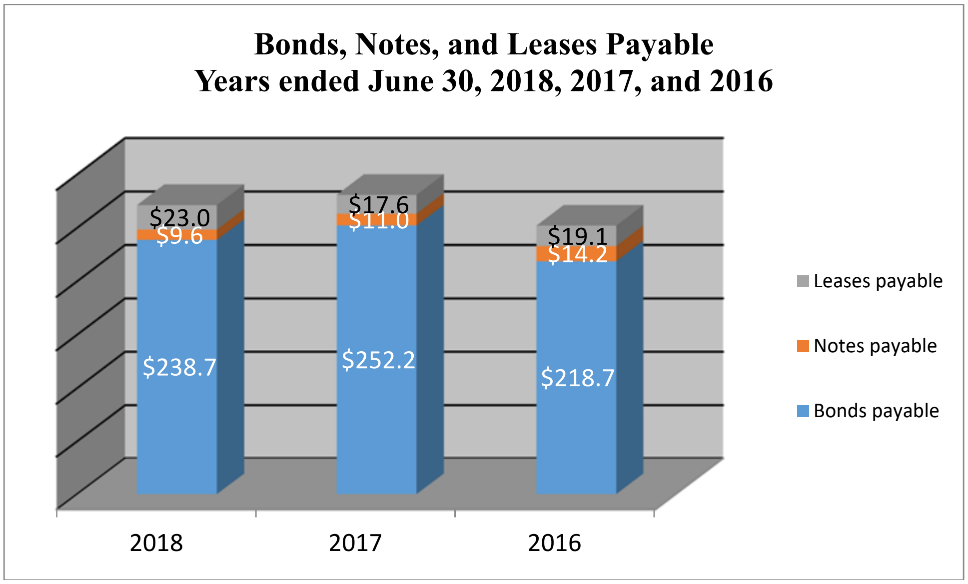
The University continues to invest in new and renovated facilities to meet the needs of students, faculty and staff. Significant projects completed, in process and approved but not started are listed below.

COMPLETED IN 2018		
Cardinal Arena Renovation	$	369,400
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
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
HSC Pediatric MOB		77,100,000
Ekstrom Library 3rd Floor Renovation		Programming
RRC Dock Modification		Programming

Debt and Financing Activities

At the end of fiscal year 2018, the University had outstanding $271.3 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to $280.8 million and $252.0 million in 2017 and 2016, respectively. The 2017 increase includes the issuance of General Receipts Bonds 2016 Series D, Series E, and Series F including funding $55.0 million of football stadium expansion cost and the refunding of Metro Government Series 2008 A and Series 2008 B bonds. The 2018 decrease represents the normal pay down of long term bonds partially offset by the issuance of master lease obligations totaling $7.2 million to fund the acquisition and construction of a TV production studio as required for entrance into the ACC.

Graphic illustrations of bonds, notes and leases payable for the years ended June 30, 2018, 2017, and 2016 (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), University of Louisville Physicians, Inc. (ULP), and University Medical Center, Inc. (UMC) 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, 2018, were $172.3 million, a decrease of $6.7 million from the June 30, 2017 balance of $719.0 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.

The UMC is a private nonprofit corporation that manages the operations of University Hospital.

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 and as an institution recognized for excellence in education, as well as pioneering in research and scholarly activity. 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:

- The US economy appears to have strengthened over the most recent year with many positive trends in key economic indicators. Moderate growth in GDP and a continuing improved unemployment picture suggest a stable near-term economic outlook for the country. However, slight inflationary movements and upticks in interest rates may create wage rate pressure and increase the cost of borrowing.
- At present, current administration has held firm funding to the National Institutes of Health (NIH), which funds many research project across the country including at UofL, and the amount of overhead that universities can recover for supporting federally-funded research. However, the administration continues to assess ways to "stretch" funding dollars further using different methods. The University continues to monitor the situation.
- The economic outlook for the Commonwealth of Kentucky also appears to have strengthened over the most recent year with the exception of the state's public pension system. The final fiscal year 2018 General Fund receipts increased 3.4 percent over 2017 and rose for the eighth consecutive year. Personal income grew by 3.7 percent in the fourth quarter of 2018 and is expected to grow at a solid rate of 4.9 percent over the next three quarters. Red flags still exist due to the mismatch between middle-wage employment and the skill level of the unemployed. Also, Kentucky's earned income relative to the U.S. is only at 73 percent, which ranks 47th among the states.
- Kentucky's public universities continue to face increasingly difficult business conditions rooted in state funding reductions. Large pension burdens weighing on the Commonwealth of Kentucky are expected to lead to further cuts in state appropriations for higher education. Kentucky is working on improving its overall budget through measures that include tax reform and comprehensive pension reform. Tax reform enacted in 2018 establishes a 5% flat income tax rate for individuals and corporations, broadens the sales tax base to include tax on certain services and increases the cigarette tax.

- It is expected that state performance funding systems will continue to expand whereby institutions are incentivized to improve student outcomes based on priorities (metrics) identified by the state. Performance-based funding ads an element of budgetary uncertainty for the university. Kentucky first implemented a performance-funding model in 2017. Under existing statue, public universities and colleges will not lose state funds based on performance through 2019. In 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 other universities.
- The projected high school graduate population in the near- and medium-term future is strong through 2026. Institutions focused on first-time, full-time baccalaureate degree-seeking students will be gearing up and recruiting hard during the three year period 2024 to 2026 when graduation rates are expected to peak. However, between years 2027 and 2032, the average graduating class size is expected to decline to levels similar to 2013 which will heighten competition and constrain tuition revenue.

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, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 80,839	$ 76,669
Deposit with bond trustee and escrow agent	-	47
Short-term investments	-	2,242
Loans, accounts and contributions receivable, net	72,105	77,023
Due from affiliate	13,560	23,602
Inventories	3,313	853
Investments held with University of Louisville Foundation, Inc.	13,884	25,280
Other assets	10,389	10,075
Total current assets	194,090	215,791
Noncurrent Assets		
Restricted cash and cash equivalents	35,816	62,707
Deposit with bond trustee and escrow agent	8,210	6,700
Loans, accounts and contributions receivable, net	60,016	71,748
Due from affiliate	24,293	34,333
Other long-term investments	1,360	1,560
Other long-term assets	247	313
Capital assets, net	971,395	891,944
Total noncurrent assets	1,101,337	1,069,305
Total assets	1,295,427	1,285,096
DEFERRED OUTFLOWS OF RESOURCES	9,680	7,412
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	102,399	94,869
Unearned compensation and wages payable	320	1,686
Advances	48,406	47,537
Bonds and notes payable	22,162	27,831
Total current liabilities	173,287	171,923
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	2,201	4,688
Deposits	1,649	1,451
Advances	3,834	3,351
Amounts due to federal government for student loan programs	15,915	15,348
Other long-term liabilities	88,845	43,804
Bonds and notes payable	249,096	252,977
Total noncurrent liabilities	362,856	322,935
Total liabilities	536,143	494,858
DEFERRED INFLOWS OF RESOURCES	61,275	49,436
NET POSITION		
Net investment in capital assets	701,024	660,316
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,633	1,633
Expendable		
Scholarships and fellowships	2,914	1,263
Research	20,411	18,622
Instruction	6,396	6,272
Public service	12,554	12,922
Academic support	626	200
Institutional support	6,522	7,999
Loans	2,814	2,761
Capital projects	687	6,353
Debt service	26,698	28,433
Unrestricted	(74,590)	1,440
Total net position	$ 707,689	$ 748,214

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	June 30 2018	June 30 2017
Assets		
Cash	**$ 6,261**	$ 8,632
Accounts and notes receivable, net	**5,626**	4,893
Loans receivable, net	**15,720**	15,720
Contributions receivable, net	**21,320**	25,935
Due from the University of Louisville Real Estate Foundation, Inc., net	**21,755**	24,080
Investments	**685,322**	682,922
Funds held in trust by others	**58,770**	55,293
Restricted investments	**5,242**	6,100
Prepaid expenses and other assets	**6,879**	7,500
Capital assets, net	**89,363**	93,987
Total assets	**$ 916,258**	$ 925,062
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 1,730**	$ 3,252
Unallocated gifts	**1,608**	1,335
Funds held in trust for others	**21,973**	33,757
Other liabilities	**12,307**	13,865
Bonds and notes payable	**81,301**	81,463
Due to the University of Louisville	**6,542**	18,256
Total liabilities	**125,461**	151,928
Net assets:		
Unrestricted	**3,763**	8,883
Temporarily restricted	**325,965**	308,513
Permanently restricted	**461,069**	455,738
Total net assets	**790,797**	773,134
Total liabilities and net assets	**$ 916,258**	$ 925,062

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	June 30	
	2018	**2017**
Assets		
Cash	**$ 2,295**	$ 6,182
Accounts receivable, net	**185**	455
Prepaids and other assets	**205**	198
Investments	**544**	5,997
Notes receivable	**–**	204
Investments in joint ventures	**6,721**	7,812
Tax incremental financing intangibles, net	**104,271**	108,634
In-place lease intangibles, net	**497**	747
Above-market lease intangibles, net	**2,523**	2,715
Capital assets, net	**100,100**	102,672
Total assets	**$ 217,341**	$ 235,616
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 527**	$ 679
Unearned ground lease revenue	**4,193**	4,297
Unearned grant revenue	**680**	1,244
Other liabilities	**306**	598
Below-market lease intangibles, net	**706**	984
Debt	**25,277**	35,747
Due to the University of Louisville	**6,275**	9,896
Due to the University of Louisville Foundation, Inc.	**26,223**	28,917
Total liabilities	**64,187**	82,362
Net assets:		
Unrestricted	**152,266**	152,259
Non-controlling interest	**888**	995
Total net assets	**153,154**	153,254
Total liabilities and net assets	**$ 217,341**	$ 235,616

See notes to the financial statements

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,466	$ 1,452
Assets limited as to use	-	-
Patient accounts receivable, less allowance for uncollectible accounts of $16,637 and $37,815 for 2018 and 2017, respectively	16,486	13,029
Receivables, related parties	5,765	2,248
Other receivables	417	2,599
Prepaid expenses and other current assets	2,088	2,449
Total current assets	31,222	21,777
Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG)	20,502	18,773
Property and equipment:		
Furniture, fixtures, and equipment	3,179	2,973
Leasehold improvements	1,451	1,445
Information technology	18,373	12,720
	23,003	17,138
Accumulated depreciation and amortization	(12,651)	(9,633)
Total property and equipment, net	10,352	7,505
Total assets	$ 62,076	$ 48,055
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable	$ 5,885	$ 7,631
Accrued payroll and related expenses	5,543	6,320
Line of credit	2,000	2,500
Current portion of capital lease obligations	-	615
Current portion accrual of University distributions (Dean's Tax)	1,210	-
Current portion of long-term debt	7,544	4,530
Total current liabilities	22,182	21,596
Long-term liabilities:		
Deferred gain on sale-leaseback of equipment	-	186
Long-term accrual of University distributions (Dean's Tax)	4,813	5,627
Long-term debt, net of current portion	19,531	12,750
Total long-term liabilities	24,344	18,563
Total liabilities	46,526	40,159
Net assets (deficit):		
Unrestricted:		
Net assets	10,123	1,193
Invested in property and equipment, net of related debt	5,427	6,703
Total net assets (deficit)	15,550	7,896
Total liabilities and net assets (deficit)	$ 62,076	$ 48,055

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

		2018
Current assets		
Cash and cash equivalents	$	80,716,818
Net patient accounts receivable		68,907,143
Other accounts receivable		6,038,483
Current portion note receivable-related party		2,300,000
Related party receivable		1,975,474
Prepaid expenses and other		2,766,642
Inventory		12,957,457
Total current assets		175,662,017
Investments		138,201,999
Property and equipment, net		117,810,936
Other assets		
Investments in joint ventures		12,116,415
Long term portion of note receivable-related party		7,100,000
Other assets		2,527,249
Total other assets		21,743,664
Total noncurrent assets		277,756,599
Total assets	$	453,418,616

See notes to the financial statements

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

LIABILITIES AND NET POSITION

	2018
Current liabilities	
Accounts payable and accrued expenses	$ 48,124,810
Related party payable	2,556,600
Accrued compensation and related accruals	16,812,729
Current portion of long-term debt	6,160,000
Estimated third-party payor settlements	140,017,077
Total current liabilities	213,671,216
Long-term debt - net of current portion	33,680,000
Other liabilities	
Self-insurance reserve and claims	554,796
Other liabilities	301,569
Total other liabilities	856,365
Total liabilities	248,207,581
Net Position	
Net invested in capital assets	97,370,936
Unrestricted	107,840,099
Total net position	205,211,035
Total liabilities and net position	$ 453,418,616

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, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $92,737 in 2018 and $89,937 in 2017	$ 217,395	$ 221,626
Clinical services and practice plan	262,013	335,065
Federal grants and contracts	72,316	68,788
State and local grants and contracts	8,191	8,603
Nongovernmental grants and contracts	17,764	12,767
Sales and services of educational departments	7,682	9,438
Facilities and administrative cost recoveries	27,035	25,064
Auxiliary enterprises, net of discount of $2,220 in 2018 and $2,138 in 2017	15,627	13,842
Intercollegiate athletics	76,491	72,756
Other operating revenues	12,805	36,113
Total operating revenues	717,319	804,062
OPERATING EXPENSES		
Instruction	284,691	293,306
Research	138,867	141,177
Public service	133,387	140,221
Academic support	139,970	142,253
Student services	28,150	31,942
Institutional support	71,478	94,167
Operation and maintenance of plant	45,089	51,404
Scholarships and fellowships	32,222	32,278
Auxiliary enterprises	7,377	7,443
Intercollegiate athletics	103,155	88,843
Depreciation and amortization	48,780	48,503
Total operating expenses	1,033,166	1,071,537
Operating loss	(315,847)	(267,475)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	132,959	134,508
Gifts	30,597	29,657
Nonexchange grants and contracts	46,349	44,629
Investment income	2,620	1,394
Realized and unrealized gain/(loss) on investments	136	106
Interest on capital asset-related debt	(10,789)	(8,900)
Other nonoperating revenues	5,082	5,798
Net nonoperating revenues	206,954	207,192
Loss before other revenues, expenses, gains and losses	(108,893)	(60,283)
Capital appropriations	43,975	21,608
Capital gifts	393	17,000
Contributions to Affiliate	-	(2,491)
Contributions from University of Louisville Foundation, Inc.	67,608	52,889
Total other revenues	111,976	89,006
Increase in net position	3,083	28,723
NET POSITION		
Net position - beginning of year	748,214	719,491
Cumulative effect of change in accounting principle	(43,608)	-
Net position - beginning of year, as restated	704,606	719,491
Net position - end of year	$ 707,689	$ 748,214

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, 2018 and 2017
(In Thousands)

	Unrestricted		Temporarily Restricted		Permanently Restricted		Totals	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenues, gains and other support:								
Gifts	**$ 22,649**	$ 18,957	**$ 7,779**	$ 4,566	**$ 3,790**	$ 3,227	**$ 34,218**	$ 26,750
Net investment return	**20,242**	18,180	**37,162**	56,976	**–**	–	**57,404**	75,156
Changes in funds held in trust	**–**	–	**–**	–	**3,479**	5,647	**3,479**	5,647
Net rental revenues	**13,146**	12,751	**–**	–	**–**	–	**13,146**	12,751
Actuarial (loss) gain on annuity and trust obligations	**–**	–	**(449)**	32	**–**	–	**(449)**	32
Other gains	**–**	12,213	**–**	–	**–**	–	**–**	12,213
Other revenues	**3,349**	4,508	**–**	–	**–**	–	**3,349**	4,508
Net assets released from restrictions:	**26,556**	27,113	**(26,556)**	(27,168)	**–**	55	**–**	–
Total revenues, gains and other support	**85,942**	93,722	**17,936**	34,406	**7,269**	8,929	**111,147**	137,057
Expenses:								
Contributions and allocations to University of Louisville departments	**67,807**	52,236	**–**	–	**–**	–	**67,807**	52,236
Contributions (from) to the University of Louisville Real Estate Foundation, Inc.	**(12)**	1,130	**–**	–	**–**	–	**(12)**	1,130
Salaries	**3,770**	5,025	**–**	–	**–**	–	**3,770**	5,025
Utilities	**2,031**	1,970	**–**	–	**–**	–	**2,031**	1,970
General and administrative	**2,306**	5,093	**–**	–	**–**	–	**2,306**	5,093
Professional services	**3,479**	3,792	**–**	–	**–**	–	**3,479**	3,792
Repairs and maintenance	**2,505**	3,100	**–**	–	**–**	–	**2,505**	3,100
Depreciation and amortization	**4,744**	5,719	**–**	–	**–**	–	**4,744**	5,719
Interest expense	**3,383**	3,716	**–**	–	**–**	–	**3,383**	3,716
Other expenses	**1,049**	5,156	**–**	–	**–**	–	**1,049**	5,156
Total expenses	**91,062**	86,937	**–**	–	**–**	–	**91,062**	86,937
Loss (gain) on contributions receivable, net	**–**	1,200	**484**	3,304	**1,938**	2,709	**2,422**	7,213
Changes in net assets	**(5,120)**	5,585	**17,452**	31,102	**5,331**	6,220	**17,663**	42,907
Net assets, beginning of year	**8,883**	3,298	**308,513**	277,411	**455,738**	449,518	**773,134**	730,227
Net assets, end of year	**$ 3,763**	$ 8,883	**$ 325,965**	$ 308,513	**$ 461,069**	$ 455,738	**$ 790,797**	$ 773,134

See notes to the financial statements

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2018	**2017**
Revenues, gains, and other support:		
Rental revenue	**$ 4,410**	$ 4,393
Gift revenues	**–**	269
Contributions	**–**	1,173
Net investment return	**78**	259
Tax incremental financing revenues	**7,970**	6,388
Other revenue	**1,284**	1,603
Total revenues, gains, and other support	**13,742**	14,085
Expenses:		
Contribution expense	**2,150**	1,071
Salaries	**169**	710
General and administrative	**708**	1,253
Professional services	**1,380**	1,721
Utilities	**681**	721
Repairs and maintenance	**692**	936
Depreciation and amortization	**6,530**	7,279
Interest expense	**1,357**	1,071
Property taxes	**68**	539
Other expenses	**–**	228
Total expenses	**13,735**	15,529
Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc.	**7**	(1,444)
Change from non-controlling interest	**(107)**	18
Total change in net assets	**(100)**	(1,426)
Net assets, beginning of year	**153,254**	154,680
Net assets, end of year	**$ 153,154**	$ 153,254

See notes to the financial statements

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.
Statements of Activities
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 163,889	$ 146,450
Provision for bad debts	(51,589)	(39,833)
Net patient service revenue less provision for bad debts	112,300	106,617
University of Louisville	36,485	35,534
University Physicians Associates, Inc. (UPA)	398	178
Pediatric Medical Office Building, Inc. (PMOB)	151	-
Academic programmatic support - related parties	18,041	19,281
Academic programmatic support	3,394	3,348
Meaningful use income	693	2,230
Medical directorship	878	872
Other revenue	5,203	2,740
Gain on investment in KMRRRG	1,729	2,290
Interest income	373	153
Total unrestricted revenues, gains, and other support	179,645	173,243
Expenses:		
Program services	145,347	141,518
Management and general	26,644	27,551
Total expenses	171,991	169,069
Change in net deficit	7,654	4,174
Net deficit, beginning of year	7,896	3,722
Net assets (deficit), end of year	$ 15,550	$ 7,896

See notes to the financial statements

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	2018
Operating revenues	
Net patient service revenue	$ 450,676,483
Other operating revenue	36,853,510
Total operating revenues	487,529,993
Operating expenses	
Salaries and wages	158,601,766
Employee benefits	33,750,542
Operating supplies	145,855,425
Professional services	62,391,671
Consultant fees	7,812,095
Purchased services	84,929,682
Insurance	3,070,133
Depreciation and amortization	18,304,201
Rental and maintenance	21,174,767
Utilities	6,665,155
Provider tax	7,264,016
Other operating expense	4,355,919
Total operating expenses	554,175,372
Operating loss	(66,645,379)
Other income (expenses)	
Interest expense	(417,000)
Investment income	1,505,969
Other expense	(7,289,366)
Total other income (expenses)	(6,200,397)
Change in net position	(72,845,776)
Net position - beginning of year	278,056,811
Net position - end of year	$ 205,211,035

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, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 218,832	$ 219,318
Clinical services and practice plan	267,772	280,413
Grants and contracts	100,311	101,682
Sales and services of educational departments	7,600	12,412
Payments to suppliers	(237,353)	(245,933)
Payments for utilities	(19,571)	(19,842)
Payments to employees	(563,606)	(567,080)
Payments for benefits	(137,460)	(136,053)
Payments for scholarships and fellowships	(34,428)	(34,743)
Loans issued to students and employees	(383)	(1,055)
Auxiliary enterprises	30,071	25,431
Facilities and administrative cost recoveries	27,035	25,064
Intercollegiate athletics	78,379	68,082
Other receipts	14,787	10,568
Net cash used by operating activities	(248,014)	(261,736)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	132,959	137,290
Gifts	35,238	28,678
Nonexchange grants and contracts	46,349	44,628
Contributions from related entities	89,535	39,838
Contributions to related entities	-	-
Other noncapital financing activities	1,836	4,157
Net cash provided by noncapital financing activities	305,917	254,591
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	43,197	21,222
Capital gifts received	380	10,778
Purchases of capital assets	(109,694)	(71,775)
Proceeds from issuance of bonds and notes payables	16,826	86,564
Payments of issuance costs	-	(570)
Principal paid on bonds and notes payable	(24,208)	(57,003)
Interest paid on bonds and notes payable	(11,403)	(8,523)
Deposits with bond trustee and escrow agent	(1,462)	4,249
Net cash used by capital and related financing activities	(86,364)	(15,058)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,960	10,504
Purchase of investments	200	(2,333)
Interest on investments	2,580	1,559
Net cash provided by investing activities	5,740	9,730
Net increase/(decrease) in cash and cash equivalents	(22,721)	(12,473)
Cash and cash equivalents - beginning of year	139,376	151,849
Cash and cash equivalents - end of year	$ 116,655	$ 139,376

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, 2018 and 2017
(In Thousands)

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (315,847)	$ (267,475)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	48,780	48,503
Loss on equipment disposals	130	2,037
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	7,993	(46,995)
Investments held with University of Louisville Foundation, Inc.	10,823	-
Inventories	149	30
Other assets	324	(323)
Other long-term assets	250	250
Accounts payable and accrued liabilities	(6,280)	5,562
Advances	2,775	(56,325)
Deposits	198	533
Due from Affiliates	(1)	1,814
Unearned compensation and wages payable	(3,853)	(3,543)
Other long-term liabilities	(1,666)	5,280
Deferred outflows of resources	(3,223)	-
Deferred inflows of resources	11,434	48,916
Net cash used by operating activities	$ (248,014)	$ (261,736)
Non cash transactions:		
Capital lease additions	$ 387	$ 373
Capital asset additions in accounts payable	$ 27,262	$ 9,739
Capital asset additions in other assets	$ 252	$ 30
Gifts of capital assets	$ 979	$ 380

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. 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, Inc., and the University of Louisville Research Foundation, Inc.. These 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), the University of Louisville Physicians, Inc. (ULP) and University Medical Center, Inc. (UMC) as discretely presented component units. Further descriptions of the Foundation, the ULREF, ULP and UMC may be found in footnote 20 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

Deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of $47 thousand, as of June 30, 2017, for the Stadium Project Revenue Bonds, and $8.2 million and $6.7 million as of June 30, 2018 and June 30, 2017, respectively for the Educational Building Bonds.

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

d. Accounts and 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.

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and external entities, and include reimbursement of costs from external entities and related foundations. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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 $0.6 million and $0.8 million at June 30, 2018 and 2017, 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.

Prior to the period ending June 30, 2018, The University capitalized interest costs as a component of construction in progress, based on the interest cost of borrowings, net of interest earned from proceeds of the borrowings. The University elected to early adopt GASB statement No. 89 *Accounting for Interest Incurred Before the End of a Construction Period.* A description of the statement is located at item v in Note 1.

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 $9.7 million and $7.4 million for the years ended June 30, 2018 and 2017, respectively, consist primarily of loss on bond refinancing of $6.3 million and amounts paid for other postemployment benefits of $3.4 million as of June 30, 2018 and loss on bond refinancing of $7.4 million and fair value of a derivative of $19 thousand as of June 30, 2017. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred outflows of resources. Deferred outflows for other postemployment benefits represent amounts paid for employee healthcare after the actuarial measurement date but before the financial reporting date. 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 of $61.3 million and $49.4 million for the years ended June 30, 2018 and 2017, respectively, consisted of $53.9 million and $49.4 million of service concession arrangements, respectively, a $184 thousand fair value of derivatives and $7.2 million of postemployment benefit experience and assumption changes for the year ended June 30, 2018. As the derivatives are effective hedging instruments, positive fair value is recognized as a deferred inflows of resources. Deferred inflows of resources related to service concession arrangements contributions from providers under a food service contract, a copy center contract, and a book store contract. Changes in the other postemployment deferred inflows will be recognized in future periods.

The University entered into 15 year arrangements for foodservice and bookstore concessions, and a 13 year arrangement for copy center 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, 2018, include $53.9 million of deferred inflows of resources, $29.0 million of long-term receivables and $14.7 million of net capital assets recorded. Under the agreements, the University maintains ownership of the facilities, while the 3rd parties will manage and operate the food service, bookstore, and copy center 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 and state 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.

v. Recent Accounting Pronouncements and Restatement

As of June 30, 2018, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. It is not practical for the University to determine the amounts of all deferred inflows of resources and deferred outflow of resources related to implementation of changes in accounting for other post-retirement benefits as of the beginning of the fiscal year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net other post-employment benefit liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The university elected to early adopt the statement and discontinue capitalization of interest related to the construction of capital assets.

As of June 30, 2018, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB Statement No. 85, *Omnibus 2017.* The Statement addresses practice issues identified during implementation and application of certain GASB Statements of a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

As of June 30, 2018, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

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. 87, *Leases.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deposits	$ 116,655	$ 139,376
Investments		
U.S. Treasury obligations	43	87
Other government obligations	-	2,242
Repurchase agreements	8,167	6,660
Investments held with the Foundation	13,884	25,280
Annuities	1,358	1,558
Other long-term investments	2	2
Total	$ 140,109	$ 175,205

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

	2018	2017
Cash and cash equivalents	$ 80,839	$ 76,669
Deposit with bond trustee-current	-	47
Short-term investments	-	2,242
Restricted cash and cash equivalents	35,816	62,707
Deposit with bond trustee-noncurrent	8,210	6,700
Investments held with the Foundation	13,884	25,280
Other long-term investments	1,360	1,560
Total	$ 140,109	$ 175,205

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, 2018 and 2017, the University had deposits subject to custodial credit risk as follows on the following page (in thousands):

June 30, 2018	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized	$ -	$ 74,890	$ 74,890
Collateralized with securities held by pledging financial institution	-	24,925	24,925
Collateralized with securities held by the Commonwealth in the Commonwealth's name	13,815	-	13,815
Total	$ 13,815	$ 99,815	$ 113,630

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

Due to the timing of a deposit on June 29, 2018, substantial funds were uncollateralized at June 30, 2018. The University's bank does not collateralize intra-day deposits therefore, the deposit remained uncollateralized until additional collateral was pledged July 2, 2018, the next business day.

c. <u>Interest Rate Risk</u>

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, 2018 and 2017, 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, 2018	Total	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 43	$ 43	$ -	$ -	$ -
Repurchase agreements	8,167	-	-	8,167	-
Total	$ 8,210	$ 43	$ -	$ 8,167	$ -

		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 obligation:	2,242	2,242	-	-	-
Repurchase agreement	6,660	-	-	-	6,660
Total	$ 8,989	$ 2,329	$ -	$ -	$ 6,660

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, 2018 and 2017, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

June 30, 2018	Aaa	Not Rated	Total
Annuities	$ 1,358	$ -	$ 1,358
Investments held with the Foundation	-	13,884	13,884
Total	$ 1,358	$ 13,884	$ 15,242

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

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, 2018 and 2017, 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, 2018 and 2017 is as follows:

	2018	2017
Investment in partnerships	53%	60%
Marketable alternatives	22%	13%
Preferred and common stock	4%	13%
Mutual funds	13%	12%
Fixed income	8%	2%
Total	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, 2018 and 2017.

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 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, 2018 and 2017 (in thousands):

	Balance as of 6/30/2018	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	$ 43	$ 43	$ -	$ -	$ -
University of Louisville Foundation, Inc. investment fund	13,884	-	-	-	13,884
Investment derivative instruments					
Interest rate swap	184	-	184	-	-
Total investments measured at fair value	$ 14,111	$ 43	$ 184	$ -	$ 13,884

	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	$ 27,590	$ 87	$ 2,223	$ -	$ 25,280

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.

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

	Fair Value as of 6/30/18	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 13,884	Various from any valuation day to quarterly	Various from 5 to 90 days

	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

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, 2018 and 2017 are as follows on the following page (in thousands):

2018	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 40,080	$ (14,500)	$ 25,580
Patient care	67,381	(41,728)	25,653
Contributions receivable	33,384	(10,572)	22,812
Sponsored agreements	21,045	(1,763)	19,282
Trade receivables	8,272	-	8,272
Other	31,868	(418)	31,450
Total	$ 202,030	$ (68,981)	133,049
Less discount			(928)
Current portion			72,105
Noncurrent portion			$ 60,016

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

Contributions receivable consist primarily of charitable gifts totaling $33.4 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 present value, using discount rates ranging from 0.2% to 5.2% as of June 30, 2018.

Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2018 and June 30, 2017.

Contributions receivable as of June 30, 2018 and 2017 are due to be received as follows (in thousands):

	2018	2017
Less than one year	$ 11,016	$ 12,070
One to three years	12,445	14,788
Greater than three years	9,923	12,483
Subtotal	33,384	39,341
Less discount	(928)	(780)
Less allowance	(10,572)	(5,289)
Net contributions receivable	$ 21,884	$ 33,272

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 $6.9 million and $18.3 million to the University as of June 30, 2018 and 2017, respectively, to fund spending of these donations and earnings and is recorded in current Due from Affiliate. The Foundation through its subsidiary remits surplus revenues to the University from the operation of certain dormitories as specified in the Ground Lease. As of June 30, 2018, the University has a current due from affiliate totaling $128 thousand relating to the Ground Lease.

b. University of Louisville Real Estate Foundation, Inc.

By memorandum of agreement dated July 1, 2015, the University agreed to loan $38.0 million to the ULREF. The receivable was to 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. During December 2017 a new promissory note was executed for the remaining balance of $7.8 million, establishing annual payment of principal and interest over five years. The unpaid balance bears simple interest equal to 75 basis points greater than the University's cash sweep rate. The ULREF repaid $3.6 million and $-0- million of the loan during the years ended June 30, 2018 and June 30, 2017, respectively, leaving a balance of $1.6 million in current due from affiliates as of June 30, 2018, and $4.7 million and $9.8 million in noncurrent due from affiliates as of June 30, 2018 and June 30, 2017.

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. (ULP), an affiliate entity, for past due fees owed the Research Foundation. ULP repaid $0.2 million and $-0- million of the outstanding balance during the years ended June 30, 2018 and 2017, respectively. The outstanding note balance is $5.7 million as of June 2018, with $65 thousand 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 (AAA) 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 an unsecured noninterest bearing note of $23.9 million from UMC as of June 30, 2017. The note is to be repaid in installments over five years. UMC repaid $5.0 million and $-0- million of the outstanding balance during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the balance of the receivable is $18.9 million with $5.0 million recorded in current due from affiliates and $13.9 million in noncurrent due from affiliates.

6. Capital Assets, Net

Capital assets as of June 30, 2018 and 2017 are as follows and on the following page (in thousands):

	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 44,677	$ -	$ -	$ -	$ 44,677
Rare books	45,073	2,837	-	-	47,910
Construction in progress	53,542	108,053	-	(369)	161,226
Subtotal	143,292	110,890	-	(369)	253,813
Cost - Depreciable					
Buildings	1,162,234	6,121	-	369	1,168,724
Infrastructure	53,515	360	-	-	53,875
Land improvements	19,849	-	-	-	19,849
Equipment	200,939	8,973	(2,615)	-	207,297
Leasehold improvements	2,117	-	-	-	2,117
Library materials	171,842	2,017	-	-	173,859
Subtotal	1,610,496	17,471	(2,615)	369	1,625,721
Total capital assets-cost	1,753,788	128,361	(2,615)	-	1,879,534
Accumulated depreciation					
Buildings	521,304	34,835	-	-	556,139
Infrastructure	3,900	894	-	-	4,794
Land improvements	4,122	567	-	-	4,689
Equipment	177,855	8,079	(2,485)	-	183,449
Leasehold improvements	1,563	64	-	-	1,627
Library materials	153,100	4,341	-	-	157,441
Total accumulated depr.	861,844	48,780	(2,485)	-	908,139
Capital assets, net	$ 891,944	$ 79,581	$ (130)	$ -	$ 971,395

	2017				
	Beginning Balance	Additions	Retirements	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

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Salaries and benefits	$ 40,351	$ 46,667
Payroll taxes	15,868	16,339
Construction	16,899	9,588
Accrued interest	3,635	3,828
Other	25,646	18,448
Total	$ 102,399	$ 94,869

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, 2018 and 2017. The outstanding balance was approximately $1.0 million for each of the years ended June 30, 2018 and 2017.

In July 2001, the Association obtained a $347 thousand 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 thousand for each of the years ended June 30, 2018 and 2017.

9. Bonds, Notes, and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2018 and 2017 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2018	2017
General Receipts Bonds:				
Series A of 2007	-	2018	$ -	$ 1,960
Series A of 2008	4.0%	2019	4,055	7,955
Series B of 2010	5.5%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	26,630	27,940
Series A of 2012	5.0%	2023	7,435	8,715
Series A of 2016	2.0% to 5.0%	2036	12,600	13,310
Series B of 2016	3.0% to 5.0%	2028	23,610	23,630
Series C of 2016	2.0% to 4.0%	2029	51,380	51,460
Series D of 2016	3.0% to 5.0%	2036	45,295	45,295
Series E of 2016	2.2% to 3.0%	2023	5,390	5,390
Series F of 2016	5.00%	2028	23,645	25,440
Notes payable	2.9%	2022	9,626	10,988
Master lease obligations	3.9%	2028	7,200	-
Energy leases	2.6% to 4.8%	2033	15,204	17,043
Capital lease obligations	2.0% to 10.7%	2020	601	540
Total long-term debt			253,613	260,608
Net unamortized premium			17,645	20,200
Long-term debt, net			$ 271,258	$ 280,808

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

2018	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 232,037	$ -	$ (11,055)	$ 220,982	$ 13,755	$ 207,227
Notes payable	10,988	9,626	(10,988)	9,626	3,013	6,613
Energy leases	17,043	-	(1,839)	15,204	1,921	13,283
Master lease obligations	-	7,200	-	7,200	601	6,599
Capital leases	540	387	(326)	601	423	178
Total	260,608	17,213	(24,208)	253,613	19,713	233,900
Less unamortized net (discount)/premium	20,200	-	(2,555)	17,645	2,449	15,196
Net bonds payable	$ 280,808	$ 17,213	$ (26,763)	$ 271,258	$ 22,162	$ 249,096

2017	Beginning Balance	Additions	Retirements	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	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

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
2019	$ 19,713	$ 10,686	$ 30,399
2020	19,440	9,995	29,435
2021	19,744	9,301	29,045
2022	19,790	8,605	28,395
2023	19,969	7,897	27,866
2024 - 2028	92,824	28,593	121,417
2029 - 2033	43,540	9,221	52,761
2034 - 2036	18,593	1,676	20,269
Total	$ 253,613	$ 85,974	$ 339,587

The University has capitalized leased equipment with a net book value of $0.8 million and $0.6 million as of June 30, 2018 and 2017, 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 $301.9 million, with annual requirements ranging from $6.7 million in 2036 to $33.3 million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were $22.2 million and $524.6 million, respectively.

As of June 30, 2018 and 2017, investments at fair value totaling approximately $8.1 million and $6.7 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.

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 $4.1 million as of June 30, 2018.

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 QECB bond subsidy was reduced to approximately 67% for fiscal years ended June 30, 2018 and 2017.

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, 2018 and 2017.

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 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. As such the General Receipts 2007 Series A bond has been removed from the June 30, 2018 financial statement. Final maturity on the 2016 Series B bonds is September 1, 2027. The University will reduce its total debt service payments 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 $4.1 million as of June 30, 2018. Final maturity on the 2016 Series C Bonds is September 1, 2028. The University will reduce its total debt service payments by $3.3 million and realize net present value savings of approximately $3.1 million as a result of the refinancing.

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%. 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, for a sound system at the stadium and the construction of a soccer stadium (Project). In June 2018, the balance of the Term Loan was refinanced for a term of four years. 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 1.14%, reset on the last day of each month. This term loan was refinanced in June 2018 and replaced with a $9.8 million term loarn with substantially the same terms. This note contains a covenant that states the Association must maintain $10.0 million in unrestricted cash or investments. The balance of the term loan was $9.6 million and $10.9 million as of June 30, 2018 and June 30, 2017, 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 lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 4.8% fixed interest rate and a term ending 2023. The balance of the lease was $10.0 million and $11.6 million as of June 30, 2018 and 2017, 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 lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 2.6% fixed interest rate and a term ending 2033. The balance of the lease was $5.2 million and $5.4 million as of June 30, 2018 and June 30, 2017, respectively.

Master Lease

In May 2018, the University entered into a $7.2 million master lease to finance investments in construction of a network production studio with a financial institution. The lessor receives an exclusive security interest in any and all equipment acquired. The lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 3.9% fixed interest rate and a term ending 2028. The balance of the lease was $7.2 million as of June 30, 2018.

Lines of Credit

The University issued a line of credit in the form of a revenue anticipation note on June 1, 2018 in the amount of $50 million with a maturity date of June 29, 2018. No draws were made from the available credit through its expiration. The University renewed the line of credit on July 2, 2018 with a maturity date of June 28, 2019 with substantially the same terms as the original line of credit..

10. Derivative Financial Instruments

a. Summary

At June 30, 2018, 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%	$ 184

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 assets on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the Association's statements of net position. For the year ended June 30, 2018, the increase in fair value of the Interest Rate Swap was approximately $203,000. 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, 2018. 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, 2018, 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 are summarized on the following page at June 30, 2018 and 2017 (in thousands):

2018

	Beginning Balance (as restated)	Additions	Retirements	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	6,374	433	(4,286)	2,521	320	2,201
Deposits	1,451	259	(61)	1,649	-	1,649
Advances	50,888	11,840	(10,488)	52,240	48,406	3,834
Amounts due federal government for student loan program	15,348	567	-	15,915	-	15,915
Other postemployment benefits	92,022	(162)	(3,017)	88,843	-	88,843
Other long-term liabilities	1,588	(87)	(1,499)	2	-	2
Total	$ 168,987	$ 12,850	$ (19,351)	$ 162,486	$ 48,726	$ 113,760

2017

	Beginning Balance	Additions	Retirements	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

The current portion of other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2017.

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 2017 to 2018. 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, 2018 and 2017, respectively, was approximately $60.1 million and $58.0 million, including $4.7 million and $4.3 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, 2018, June 30, 2017, and June 30, 2016:

Fiscal year ended June 30,	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2018	$ 4,277	$ 62,016	$ (61,961)	$ 4,332
2017	4,731	59,882	(60,336)	4,277
2016	5,825	53,893	(54,987)	4,731

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Salaries and wages	$ 556,422	$ 573,480
Employee benefits	140,849	147,539
Utilities	20,330	20,059
Scholarships and fellowships	35,437	34,505
Depreciation	48,780	48,503
Supplies and other services	231,348	247,451
Total	$ 1,033,166	$ 1,071,537

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, 2018 and 2017 is presented as follows (in thousands):

	2018	2017
Total University payroll	$ 567,114	$ 579,095
Total payroll covered by the plan	547,026	555,392
Employee contributions	30,429	30,417
University contributions	40,605	40,539

As of June 30, 2018 and 2017, the University had no forfeitures or outstanding liability related to the Retirement Plan.

b. Prior Service Defined Benefit Plan

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, 2018 and June 30, 2017. 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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Actuarial present value of nonvested accumulated plan benefits	$ 1,066	$ 1,168
Net assets available for benefits	$ 1,325	$ 1,472
Net pension surplus	$ (259)	$ (304)
Funded ratio	124%	126%

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% for each of the years ended June 30, 2018 and 2017, for preretirement and postretirement periods.

15. Postemployment Healthcare Benefits

a. Plan Description

University and Association personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. 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

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.

At July 1, 2017, the following employees were covered by the benefit terms.

Inactive plan members	1,441
Active plan members	5,546
Total	6,987

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, 2018 and 2017, the University contributed approximately \$3.3 million and \$3.0 million to the Plan, approximately 80% and 78% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$0.8 million and \$0.9 million, approximately 20% and 22% of total premiums for the years ended June 30, 2018 and 2017, respectively, through their required monthly contributions according to the schedules below:

2018

	PPO	EPO	PCA High	PCA Low
Employee	\$ 335	\$ 353	\$ 281	\$ 248
Employee and Spouse	\$ 811	\$ 851	\$ 692	\$ 555

2017

	PPO	EPO	PCA High	PCA Low
Employee	\$ 335	\$ 353	\$ 281	\$ 248
Employee and Spouse	\$ 811	\$ 851	\$ 692	\$ 555

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the years ended June 30, 2018 and 2017, the University contributed \$1.9 million and \$1.7 million for Medicare-eligible retirees, respectively.

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

The University's total OPEB liability was measured by an actuarial valuation as of June 30, 2017. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.58%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	8.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 4.5% for 2026 and later years

The investment rate of return is shown as not applicable (NA) since the University contributes only the amount necessary to pay current benefits. The discount rate is 3.5% as of the Measurement Date, 2.85% as of the beginning of the Measurement Period.

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 on the following page (in thousands):

	Total OPEB Liability
Balances at 6/30/2017	$ 92,022
Changes for the year:	
Service cost	5,203
Interest	2,728
Differences between expected and actual experience	(2,608)
Changes of assumptions	(5,495)
Contributions - employer	-
Net investment income	-
Benefit payments	(3,007)
Administrative expense	-
Net Changes	(3,179)
Balances at 6/30/2018	$ 88,843

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.58)%	Discount Rate (3.58)%	1% Increase (4.58)%
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (9.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 5.5% for 2026) than the current healthcare cost trend rate:

	1% Decrease (7.1% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.1% decreasing to 4.5%	1% Increase (9.1% decreasing to 5.5%)
Net OPEB liability	$ 82,733	$ 88,843	$ 96,178

For the year ended June 30, 2018 the University recognized OPEB expense of $6,985. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (2,303)
Changes of assumptions	-	(4,854)
Contributions made in fiscal year ending 6/30/2018 after the measurement date of 6/30/2017	3,384	-
Total	$ 3,384	$ (7,157)

The amount reported as contributions after the measurement date included in deferred outflows will be recognized as benefit payments during the following fiscal year.

Amounts reported as differences between expected and actual experience and changes in assumptions included under deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	$ (947)
2020	(947)
2021	(947)
2022	(947)
2023	(947)
Thereafter	(2,422)

d. Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was $88.8 million and $92.0 million and there were no assets, resulting in an unfunded net OPEB liability of $88.8 million and $92.0 million as of June 30, 2018 and 2017, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.4 million and $499.0 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 19%, for the years ended June 30, 2018 and 2017, 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.

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 June 30, 2017, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.1% initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2018 and 2017 were due to updates made on expected future health claims and an increase in the discount rate from 2.85% as of the beginning of the reporting year to 3.58% as of the measurement date.

16. Health Science Center Affiliations and Agreements

a. University Hospital Affiliation, Lease and Operating Agreements

In December 2016, the University entered into a Memorandum of Understanding with University Medical Center, Inc. (UMC) stating certain claims brought against KentuckyOne have been settled. As a result of the settlement the University agreed to release KentuckyOne from programmatic investment funds due under a former Academic Affiliation Agreement (AAA) and that UMC assumed the payments to the University for the forgiveness of termination payments due to KentuckyOne by UMC. The Memorandum of Understanding also stated the operation of the University of Louisville Hospital would transition to ULH effective July 1, 2017.

As of July 1, 2017, an Amended and Restated AAA between The University and UMC became effective. The AAA defines the scope of services and purpose of affiliation to sustain the University's academic, education and research missions, and to provide facilities and resources for providing healthcare to patients. During the term of the agreement, UMC will provide in the aggregate, no less than \$77.6 million annually, which includes funding of \$18.3 million for salaries and benefits; academic mission support for University Health Sciences Center of \$12.5 million; departmental, clinical and administrative support of \$39.3 million; and lease payments of \$7.0 million to \$7.5 million over the term of the lease. For the year ended June 30, 2018, the University received \$58.4 million from UMC in fulfillment of the annual funding arrangements. The initial term of the AAA is two years and automatically renews for successive one-year periods unless either party provides written notice under the terms in the agreement.

As of July 1, 2017, as Amended and Restated Lease Agreement (Lease) between the Commonwealth of Kentucky, for the use and benefit of the University, and UMC became effective. The Lease calls for annual lease fees of \$7.0 million to be paid in equal monthly payments by UMC to the University for the first two years, then \$7.5 million each renewal term thereafter. The initial term of the Lease is two years and automatically renews for up to three one-year periods unless either party provides written notice under the terms in the agreement. The annual rent revenue from UMC is included in clinical services and practice plan revenue as of June 30, 2018.

The accompanying statements of net position include approximately \$2.7 million in accounts receivable for the year ended June 30, 2018 representing amounts due from the AAA and Lease agreements.

In November 2012, the University, Commonwealth, UMC, and KentuckyOne Health, Inc. (KentuckyOne) amended and restated the UMC land lease and executed an 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 and the land lease was amended and restated as described in the preceding paragraphs.

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. For the year ending June 30, 2017, the University received $34.4 million and $2.9 million related to the strategic programmatic investments and research initiatives, respectively. The agreement also 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 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 resident positions over the term of the affiliation agreement. As of the termination of the academic affiliation agreement on June 30, 2017, a new agreement was executed for the continuation of funding for the resident positions. Funding for the years ended June 30, 2018 and 2017 were $18.9 million and $65.6 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, agreeing 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 the year ended June 30, 2017 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 agreement, the Commonwealth and the University as lessor amended and restated the lease agreement with KentuckyOne to lease the Hospital. The annual lease payment was $7.0 million as of the termination of the agreement on June 30, 2017. 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 for the year ended June 30, 2017, 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 year ended June 30, 2017 was $0.8 million, 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 in accounts receivable for the year ended June 30, 2017 representing amounts due from the lease of the Hospital.

b. Quality and Charity Care Trust Transfers for Hospital Operations

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. 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 Norton 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, 2018 and 2017 was $24.1 million and $20.0 million, respectively.

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.

17. Leases

The University has entered into operating leases related to academic, administrative and research facilities. The majority of the leases are for a term of one to three years. Leases with a longer term are described below.

The University has operating lease agreements related to the use of athletic facilities. Under these lease agreements, the University's rights have been assigned to the Association. These leases are described below.

a. Norton's Children's Hospital

The University has leased space in Norton's Children's Hospital since 1970. The current lease has annual lease payments of $14 thousand through 2069.

b. 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 thousand to $66.5 thousand. Total lease expense for each of the years ended June 30, 2018 and 2017 amounted to approximately $61 thousand.

c. 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. Additional space was added, for a period of 10 years, ending December 31, 2024 with annual payments starting at approximately $80,000, subject to increase each year. Total lease expenses during the years ended June 30, 2018 and 2017 amounted to approximately $168 thousand and $167 thousand, respectively.

d. 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.

In July 2017 an amendment of the lease was signed extending the term through 2054 and amending the annual rents to include an additional payment of $2.4 million along with the calculated annual net payment as described below. Annual lease payments are equal to the greater of 10% of gross ticket sales or a minimum lease amount of $10 thousand per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of $5 thousand 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, 2018 and 2017 amounted to approximately $6.0 million and $3.4 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, 2018 and 2017 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, 2018 and 2017 amounted to approximately $1.3 million and $1.4 million, respectively.

e. Christ Church Cathedral

In July 2017 the Association executed an Agreement with Louisville Metro Government for a ground lease of Churchill Park athletic fields for an initial term of fifty years with annual payments of $15 thousand per year for the term of the lease. The Association also executed an agreement to acquire reversionary interest in the properties for an initial payment of $0.3 million and payments of $50 thousand over ten years beginning July 31, 2018.

a. Future Minimum Lease Payments

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

For the year ending June 30,	Lease Payment Due
2019	$ 6,093
2020	4,880
2021	3,359
2022	3,313
2023	2,741
2024-2028	12,910
2029-2033	12,241
2034-2038	12,241
2039-2043	12,241
2044-2048	12,241
2049-2053	12,241
2054-2058	2,561
2059-2063	141
2064-2068	126
2069-2072	13
Future minimum lease payments	$ 97,342

18. Commitments and Contingencies

a. Commitments

At June 30, 2018, the University had approximately $35.0 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. Federal Investigation

In September 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 Association cannot be estimated at the time of issuance of the audited financial statements.

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. 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, 2018 and 2017, are as follows on the following pages (in thousands):

Condensed Statements of Net Position

	2018			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 96,697	$ 44,760	$ 52,633	$ 194,090
Capital assets	695,291	57,680	218,424	971,395
Other noncurrent assets	72,876	6,443	50,623	129,942
Total assets	864,864	108,883	321,680	1,295,427
Deferred outflows of resources	6,874	1,240	1,566	9,680
Current liabilities	55,506	56,723	61,058	173,287
Due to University	(106,497)	-	106,497	-
Other noncurrent liabilities	313,169	32,348	17,339	362,856
Total liabilities	262,178	89,071	184,894	536,143
Deferred inflows of resources	57,291	2,722	1,262	61,275
Net investment in capital assets	518,569	57,690	124,765	701,024
Restricted-nonexpendable	-	-	1,633	1,633
Restricted-expendable	23,754	27,500	28,368	79,622
Unrestricted	9,946	(66,860)	(17,676)	(74,590)
Total net position	$ 552,269	$ 18,330	$ 137,090	$ 707,689

	2017			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 108,580	$ 37,763	$ 69,448	$ 215,791
Capital assets	653,542	61,726	176,676	891,944
Other noncurrent assets	89,536	6,374	81,451	177,361
Total assets	851,658	105,863	327,575	1,285,096
Deferred outflows of resources	5,733	-	1,679	7,412
Current liabilities	71,948	40,526	59,449	171,923
Due to University	(104,284)	-	104,284	-
Other noncurrent liabilities	296,480	15,515	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	28,681	84,825
Unrestricted	39,157	(36,369)	(1,348)	1,440
Total net position	$ 544,668	$ 49,822	$ 153,724	$ 748,214

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

	2018			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 217,395			$ 217,395
Clinical services and practice plan	13,769	$ 248,244		262,013
Grants and contracts	(153)	98,424		98,271
Facilities and administrative cost recoveries	-	27,035		27,035
Other operating revenue	29,889	6,225	$ 76,491	112,605
Total operating revenues	260,900	379,928	76,491	717,319
Depreciation	36,497	6,537	5,746	48,780
Other operating expenses	449,545	421,719	113,122	984,386
Total operating expenses	486,042	428,256	118,868	1,033,166
Operating loss	(225,142)	(48,328)	(42,377)	(315,847)
State appropriations	132,959	-	-	132,959
Gifts	1,167	503	28,927	30,597
Interest on capital asset-related debt	(10,469)	-	(320)	(10,789)
Other nonoperating revenues	7,016	48,159	(988)	54,187
Capital appropriations	43,975	-	-	43,975
Capital gifts	-	-	393	393
Contributions from affiliates, net	67,608	-	-	67,608
Transfers	15,220	(15,480)	260	-
Total nonoperating revenues	257,476	33,182	28,272	318,930
Change in net position	32,334	(15,146)	(14,105)	3,083
Net position - beginning of year	544,668	49,822	153,724	748,214
Application of accounting change	(24,733)	(16,346)	(2,529)	(43,608)
Net position - beginning of year, as restated	519,935	33,476	151,195	704,606
Net position - end of year	$ 552,269	$ 18,330	$ 137,090	$ 707,689

	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 revenues	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	4,340	47,236	351	51,927
Capital appropriations	21,608	-	-	21,608
Capital gifts	168	-	16,832	17,000
Voluntary separation plan expense	-	-	-	-
Contributions from affiliates, net	52,065	(2,054)	387	50,398
Transfers	5,671	(5,671)	-	-
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

Condensed Statements of Cash Flows

	2018			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (168,889)	$ (48,963)	$ (30,162)	$ (248,014)
Noncapital financing activities	234,899	33,359	37,659	305,917
Capital and related financing activities	(44,600)	(2,534)	(39,230)	(86,364)
Investing activities	4,527	39	1,174	5,740
Net (decrease)/increase in cash and cash equivalents	25,937	(18,099)	(30,559)	(22,721)
Cash and cash equivalents, beginning of year	75,459	(21,827)	85,744	139,376
Cash and cash equivalents, end of year	$ 101,396	$ (39,926)	$ 55,185	$ 116,655

	2017			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (202,329)	$ (26,890)	$ (32,517)	$ (261,736)
Noncapital financing activities	107,596	34,416	112,579	254,591
Capital and related financing activities	31,600	(2,877)	(43,781)	(15,058)
Investing activities	8,246	57	1,427	9,730
Net increase/(decrease) 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

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 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board 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, 2018 and 2017, were:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Donor-restricted endowment funds	**$ (26,820)**	**$ 281,828**	**$ 461,069**	**$ 716,077**
Board-designated endowment funds	**76,111**	**-**	**-**	**76,111**
Total	**$ 49,291**	**$ 281,828**	**$ 461,069**	**$ 792,188**

	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
Total	$ 43,450	$ 281,436	$ 455,738	$ 780,624

Changes in endowment net assets for the years ended June 30, 2018 and 2017 were:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Endowment net assets, beginning of year	**$ 43,450**	**$ 281,436**	**$ 455,738**	**$ 780,624**
Investment return:				
Investment and endowment income	**1,556**	**3,945**	**-**	**5,501**
Net appreciation	**13,269**	**32,138**	**-**	**45,407**
Net appreciation of funds held in trust by others	**-**	**-**	**3,479**	**3,479**
Total investment return	**14,825**	**36,083**	**3,479**	**54,387**
Contributions	**351**	**317**	**3,790**	**4,458**
Appropriations	**(8,313)**	**(38,305)**	**-**	**(46,618)**
Other changes	**(1,022)**	**2,297**	**(1,938)**	**(663)**
Endowment net assets, end of year	**$ 49,291**	**$ 281,828**	**$ 461,069**	**$ 792,188**

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
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 of 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

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

	2018	2017
	(In Thousands)	
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UPMIFA	**$ 461,069**	$ 455,738
Temporarily restricted net assets - term endowment funds	**9,310**	7,964

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 $26.8 million and $25.8 million at June 30, 2018 and 2017, 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 certain endowment funds' average market values over the prior three years through the calendar year-end preceding the year in which expenditure is planned. 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.

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 which includes the association and allocated an additional 1.42% (previously 1.98%) for overall fundraising efforts of the Foundation as well as strategic priorities identified by the then Interim 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.

In March 2018, the Board of the Foundation approved a 4.2% spending policy for the fiscal year 2019 for support to the academic units and allocated 1.3% for overall fundraising efforts and operations of the Foundation. The spending policy remains based on a three-year moving average of certain 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 for the total endowment assets was 7.1% and 5.4% in 2018 and 2017, respectively.

Included within the endowment amounts shown above of $792.2 million and $780.6 million as of June 30, 2018 and 2017, respectively, are certain funds which are not included in the Foundation's spending policy. For the years ended June 30, 2018 and 2017, such funds include certain donor-designated expendable gift funds, amounting to $70.8 million and $63.8 million, respectively, loans to affiliates of the University and the Foundation of $45.9 million and $48.6 million, respectively, and funds held in trust by others of $58.7 million and $55.3 million, respectively. See Note 8 for additional information regarding funds held in trust by others and Note 13 for additional information regarding related-party transactions.

2. Investments and Investment Income

Investments as of June 30, 2018 and 2017, are as follows:

	2018	2017
	(In Thousands)	
Cash equivalents	**$ 17,904**	$ 5,242
Alternative investments:		
Hedge funds	**152,019**	170,241
Investments in partnerships	**363,837**	368,815
Mutual funds:		
Equity	**43,499**	40,384
Fixed income	**46,908**	50,286
Marketable alternatives:		
Domestic marketable equity securities	**24,235**	36,501
Marketable debt securities:		
Agency bonds	**17,406**	6,426
US Treasury	**19,514**	5,027
Total investments	**$ 685,322**	**$ 682,922**

Restricted investments are restricted by bond indenture for payment of debt service and repairs and replacement. Restricted investments as of June 30, 2018 and 2017, are as follows:

	2018	2017
	(In Thousands)	
Cash equivalents	**$ 3,572**	$ 6,100
US agency obligations	**1,670**	-
Total	**$ 5,242**	**$ 6,100**

Total investment return for the years ended June 30, 2018 and 2017, is reflected in the consolidated statements of activities and changes in net assets as follows (in thousands):

	2018	2017
	(In Thousands)	
Alternative investments net return	**$ 44,674**	$ 59,418
Dividends and interest	**2,512**	1,141
Endowment income	**544**	2,619
Net realized gain on investments	**9,262**	3,364
Net unrealized gain on investments	**412**	8,614
Total	**$ 57,404**	**$ 75,156**

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.

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, 2018 and 2017, consisted of the investments on the following page (in thousands):

	2018			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	**$ 152,019**	**$ 12,781**	**Various from quarterly to illiquid**	**Various from 45 to 90 days**
Investments in partnerships	**363,837**	**67,459**	**Various from monthly to illiquid**	**Various from 30 to 90 days**

	2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	$ 170,241	$ 6,433	Various from quarterly to illiquid	Various from 45 to 90 days
Investments in partnerships	368,815	63,882	Various from monthly to illiquid	Various from 30 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, 2018 and 2017:

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash	**$ 6,261**	**$ -**	**$ -**	**$ 6,261**
Cash equivalents	**17,904**	**-**	**-**	**17,904**
Mutual funds:				
Equity	**43,499**	**-**	**-**	**43,499**
Fixed income	**46,908**	**-**	**-**	**46,908**
Domestic marketable equity securities	**24,235**	**-**	**-**	**24,235**
Marketable debt securities:				
Agency bonds	**-**	**17,406**	**-**	**17,406**
U.S. Treasury	**19,514**	**-**	**-**	**19,514**
Total investments	**152,060**	**17,406**	**-**	**169,466**
Funds held in trust by others	**-**	**58,770**	**-**	**58,770**
Restricted investments:				
Cash equivalents	**3,572**	**-**	**-**	**3,572**
U.S. Treasury	**1,670**	**-**	**-**	**1,670**
Total cash, investments, funds held in trusts by others, and restricted investments	**$ 163,563**	**$ 76,176**	**$ -**	**$ 239,739**
Investments at NAV:				
Hedge funds				**152,019**
Investments in partnerships				**363,837**
				$ 755,595

	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
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	137,440	6,426	-	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	$ 152,172	$ 61,719	$ -	$ 213,891
Investments at NAV:				
Hedge funds				170,241
Investments in partnerships				368,815
				$ 752,947

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, 2018.

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 U.S. government agency bonds.

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, 2018 and 2017. 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. Loans

As of June 30, 2018 and 2017, 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 $856,000 and $983,000 outstanding, respectively, as of June 30, 2018 and 2017.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One, LLC. As of June 30, 2018 and 2017, the amount under guarantee was $7.6 million and $7.8 million, respectively.

In February 2015, ULF guaranteed a portion of PGxl line of credit agreement. The line of credit was also guaranteed by PGxl's two founders who are also faculty members at the University of Louisville. The line of credit was secured by the assets of PGxl.

b. 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%. The Foundation has not made any payments on this guarantee to date.

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 $25.9 and $23.6 million as of June 30, 2018 and 2017, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately \$32.8 million and \$31.7 million as of June 30, 2018 and 2017, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2018 and 2017, the Foundation recorded income of \$2.3 million and a loss of \$5.6 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, 2018 and 2017, the Foundation held approximately \$13.6 million and \$25.3 million for the Association's investment purposes, respectively.

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, 2018 and 2017, the Foundation held approximately \$8.2 million for Jewish Hospital's investment purposes.

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, 2018 and 2017, 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

In 2018 and 2017, there were approximately \$-0- and \$1.2 million, respectively, of contributions directly to ULREF that did not relate to property transfers or the assignment of membership interests.

In connection with the assignment of certain membership interests to ULREF, the Foundation entered into a memorandum of agreement effective June 30, 2016 with ULREF and certain of its affiliates 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.

During 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 expenses in the consolidated statements of activities and changes in net assets and is being amortized over a 15-year period. 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, 2018 and 2017, the net receivable from ULREF is \$21.9 million and \$24.0 million and is included within the assets of the endowment of the Foundation as 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 2018, or earlier retirement of the garage construction loan. As of June 30, 2018 and 2017, the Foundation payments to Preston are insignificant.

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, 2018 and 2017, consist of the following (in thousands):

	2018	2017
Land and land improvements	**$ 56,807**	$ 56,235
Buildings	**41,731**	41,731
Building improvements	**1,779**	1,097
Tenant finish	**3,526**	2,703
Furniture, fixtures, and equipment	**1,477**	1,475
	105,320	103,241
Accumulated depreciation	**(6,337)**	(4,376)
Construction-in-progress	**1,117**	3,807
	$ 100,100	$ 102,672

2. Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2018 and 2017, were as follows on the following page (in thousands):

	2018		2017	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets and liabilities:				
In-place leases	**$ 869**	**$ (372)**	$ 1,268	$ (521)
Above-market leases	**2,948**	**(425)**	3,015	(300)
Tax incremental financing	**116,600**	**(12,329)**	116,600	(7,966)
Below-market leases	**(1,326)**	**620**	(1,449)	465

Amortization expense for each of the years ended June 30, 2018 and 2017, was approximately $4.5 million.

At June 30, 2018, 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 thousands):

	In-Place Leases	**Above-Market Leases**	**Tax Incremental Financing**	**Below-Market Leases**
2019	$ 166	$ 127	$ 4,364	$ (120)
2020	93	125	4,364	(57)
2021	24	125	4,364	(14)
2022	21	125	4,364	(14)
2023	21	125	4,364	(14)
Thereafter	172	1,896	82,451	(487)
Total	$ 497	$ 2,523	$ 104,271	$ (706)

3. Debt

Debt in the consolidated statements of financial position at June 30, 2018 and 2017 consists of the following on the following page (in thousands):

	Description	Fiscal Year of Maturity	2018	2017
Construction Loan Agreement – 220 Preston, LLC	Variable rate based on London Interbank Offered Rate (LIBOR) plus 1.50%, with monthly interest-only payments commencing February 2015 and principal payment at maturity	2018	**$ 9,340**	$ 9,340
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	**16,000**	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
	Debt		**25,340**	35,840
	Less debt issuance costs		**(63)**	(93)
	Total debt		**$ 25,277**	$ 35,747

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, 2018, Preston was in compliance with this debt requirement. The principal is due in full on December 31, 2018.

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, 2018.

In June 2016, ULREF entered into a $7.0 million line of credit agreement with a financial institution, which matured on July 1, 2018. The line of credit was repaid on June 29, 2018.

A summary of scheduled principal payments on the above obligations is as follows (in thousands):

Year ending June 30:	
2019	$ 9,340
2020	–
2021	–
2022	16,000
2023	–
Thereafter	–
	$ 25,340

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 DevCo, and a Management Agreement between Preston and NTS 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, 2018 and 2017 (in thousands):

	2018	2017
Cash	**$ 149**	$ 119
Accounts receivable	**10**	10
Other assets	**2**	4
Capital assets, net	**16,013**	16,552
Total assets	**$ 16,174**	$ 16,685
Accounts payable and accrued liabilities	**$ 119**	$ 93
Note payable	**9,338**	9,340
Total liabilities	**$ 9,457**	$ 9,433

The operations of the non-controlling interest are not considered material for the years ended June 30, 2018 or 2017.

5. Leasing Activities

The ULREF leases space to tenants under noncancellable operating leases. As of June 30, 2018, the ULREF 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, 2018 and 2017, was as follows on the following page (in thousands):

	2018	2017
Base minimum rents	**$ 4,401**	$ 4,227
Common area maintenance	**9**	166
	$ 4,410	$ 4,393

Future leasing rent payments due to ULREF on noncancellable leases are as follows (in thousands):

Year ending June 30:	
2019	$ 1,878
2020	1,685
2021	1,474
2022	1,291
2023	1,015
Thereafter	2,455
	$ 9,798

ULREF provides university tenants with free or discounted rents. For the years ended June 30, 2018 and 2017, the amounts of free or discounted rents recognized as contributions to university tenants were approximately $2.2 million and $1.3 million, respectively. These amounts are included in contribution expense on the consolidated statements or activities and changes in net assets.

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 $1.6 million and $1.3 million for the years ended June 30, 2018 and 2017, respectively. Management has estimated its cost incurred to provide charity care to be approximately $0.8 million and $0.6 million for each of the years ended June 30, 2018 and 2017, 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, 2018 and 2017 was $20.5 million and $18.8, 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, 2018 and 2017 is as follows (in thousands):

	2018	2017
Gross patient service revenue	$ 375,929	$ 361,484
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	(212,040)	(215,034)
Provision for uncollectible accounts	(51,589)	(39,833)
	(263,629)	(254,867)
Net patient service revenue	$ 112,300	$ 106,617

e. University Medical Center, Inc.

UMC is a nonprofit corporation incorporated on June 27, 1995. Norton Healthcare, Inc. (Norton), a Kentucky nonprofit corporation, Jewish Hospital & St. Mary's Healthcare, Inc. (formerly known as Jewish Hospital HealthCare Services, Inc. (Jewish)), a Kentucky nonprofit corporation, and the University of Louisville (UofL) were the original members of the Corporation. Effective July 1, 2007, Norton and Jewish resigned from the Board and UMC reverted to a nonmember, nonprofit corporation under KRS Chapter 273.

The business and affairs of UMC are conducted by its Board of Directors. The Board of Directors, including the Chair of the Board, are appointed by the President of the University of Louisville. There are 13 voting directors. The Board may also appoint Advisory Directors for one-year terms to attend meetings and serve on committees but they may not vote. The Corporation is a component unit of the University of Louisville.

1. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

The Corporation estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Corporation.

2. Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Of the Corporation's total operating expenses (approximately $554.2 million), an estimated $3.7 million arose from providing services to charity patients during 2018. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue.

3. Deposits and Investments

Deposits and investments are comprised of the following at June 30, 2018:

	Fair Value	Amortized Historical Cost
Cash and cash equivalents	$ 81,269,699	$ 81,269,699
Money market deposit accounts	26,820,589	26,820,589
US government obligations	8,633,249	8,531,073
Mortgage backed securities	9,574,528	9,572,086
Municipal bonds	485,308	485,516
Mutual funds	49,363,741	47,878,051
Common stocks	2,317,887	2,254,069
Mortgage bonds	3,956,661	3,953,726
Asset backed bonds	5,366,537	5,359,141
Corporate bonds	21,517,037	21,573,518
Limited partnerships	9,613,581	9,400,000
Total	$ 218,918,817	$ 217,097,468

	Fair Value	Amortized Historical Cost
Included in the balance sheet captions:		
Cash and cash equivalents	$ 80,716,818	$ 80,716,818
Investments	138,201,999	136,380,650
Total	$ 218,918,817	$ 217,097,468

4. Investment in Joint Ventures

The Corporation has a 30.9% ownership in a joint venture, Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG). The purpose of this joint venture is for the provision of professional liability coverage to its subscribers, which includes the Corporation and certain University of Louisville Medical School Practice Association members, on a claims-made basis through KMR LLC. The Corporation accounts for its investment in KMRRRG under the equity method. The Corporation contributed certain assets in exchange for its interest in the joint venture. The carrying amount of the joint venture as of June 30, 2018 was approximately $11.9 million.

5. Estimated Amounts Due to Third-Party Payors

Net patient service revenue for services provided to patients who have third-party payor coverage is recognized based on contractual rates from the services rendered. The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. As a result, the provision for bad debt is presented as a deduction from patient service revenue net of contractual provisions and discounts. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue when services are provided. Based on historical experiences, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient accounts are reduced by an allowance for uncollectible accounts based upon the historical collection experience adjusted for current environmental risks and trends for each major payor source. The Corporation restated its charity care policy effective July 1, 2017.

a. Medicare and Medicaid

Inpatient hospital services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The diagnosis upon which payment is based is subject to review by Medicare representatives. Medicare payments for most outpatient services are made based upon the patient's procedures and diagnosis. Medicare payments for graduate medical education (GME), indirect medical education (IME), and certain bad debts for beneficiary deductible and coinsurance are made based upon reimbursable costs subject to caps. Such reimbursable costs were determined from annual cost reports filed, which are subject to audit. Provision has been made for the estimated effects of reviews and audits. The Hospital increased net patient service revenue by approximately $483 thousand in 2018, as a result of changes in estimates related to prior year cost report statements and other payor issues.

The Medicaid program reimburses the Corporation on a prospectively determined rate per patient day for inpatient services and on a combination of fee for services and on the basis of cost, as defined, for outpatient services. Provision has been made for the estimated effects of reviews and audits by Medicaid.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. The Corporation believes it is in substantial compliance with all applicable laws and regulations, and that no pending or threatened investigations will have a material adverse effect on the financial position of the Corporation. However, compliance with health care industry laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

b. Disproportionate Share Hospital

The Corporation's high Medicaid utilization allows it to be designated as a disproportionate share hospital. It is party to intergovernmental transfers made by UofL on the Corporation's behalf, and receives amounts from Medicaid as a disproportionate share hospital. The disproportionate share payments are received in a lump sum and are amortized over the federal fiscal year (October – September). The Corporation included the amortization of these payments in net patient service revenue in the statements of operations and changes in net position. Unamortized amounts under these programs are included in the third party payor settlements on the balance sheets.

c. Passport Health Plan

Passport Health Plan (Passport) is a comprehensive risk-based entity that contracts with the Commonwealth of Kentucky's Medicaid program to provide comprehensive medical services to patients in its region. Passport also has a Medicare replacement insurance product. Sponsors and affiliated entities provide health care services to members at contracted rates. The Corporation holds a 12.5% sponsorship in Passport.

d. Urban Trauma Payment

Urban Trauma payment is a Kentucky Medicaid payment for hospitals designated as disproportionate share hospitals. Urban Trauma payments are received monthly by the Corporation from Passport and are recognized over the state fiscal year (July – June). Urban Trauma payment is included in net patient service revenue in the statements of operations and changes in net assets.

e. Other

The Corporation has also entered into payment agreements with certain commercial insurance carriers and health maintenance and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

6. Net Patient Service Revenue

Net patient service revenue consists of the following

		2018
Patient Revenue:		
Inpatient services	$	1,215,183,788
Outpatient services		1,335,388,462
Total patient revenue		2,550,572,250
Revenue deductions:		
Provision for contractual allowances		2,064,811,106
Provision for bad debt allowances		18,148,090
Charity care		16,936,571
Total revenue deductions		2,099,895,767
Total net patient service revenue	$	450,676,483

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Fiscal Year Ending
(in thousands)

	6/30/2018
Total OPEB liability	
Service Cost	$ 5,203
Interest	2,728
Difference between expected and actual experience	(2,608)
Changes of assumption	(5,495)
Benefit payments	(3,007)
Net change in OPEB Liabiblity	$ (3,179)
OPEB liability - beginning of year	92,022
OPEB liability - end of year	$ 88,843
Covered employee payroll	$ 445,356
Total OPEB liability as a percentage of covered employee payroll	19.95%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.

UNIVERSITY OF LOUISVILLE
AND AFFILIATED CORPORATIONS
Louisville, Kentucky

SINGLE AUDIT REPORTS AND THE
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
Year Ended June 30, 2018

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
Louisville, Kentucky

SINGLE AUDIT REPORTS AND THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

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UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
STUDENT FINANCIAL AID CLUSTER				
UNITED STATES DEPARTMENT OF EDUCATION				
Federal Supplemental Educational Opportunity Grants	84.007		$ 21,273,407	$ -
Federal Work Study Program	84.033		(69)	-
Federal Perkins Loan Program	84.038		8,684,842	-
Federal Pell Grant Program	84.063		106,168	-
William D. Ford Federal Direct Loan Program	84.268		142,876,666	-
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants	84.379		107,251	-
SUBTOTAL UNITED STATES DEPARTMENT OF EDUCATION			173,048,265	-
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Health Professions Student Loans, Including Primary Care Loans and Loans for Disadvantaged Students	93.342		9,791,097	-
Nursing Student Loans	93.364		37,834	-
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			9,828,931	-
TOTAL STUDENT FINANCIAL AID CLUSTER			**182,877,196**	-
RESEARCH AND DEVELOPMENT CLUSTER				
DEPARTMENT OF AGRICULTURE				
Agricultural Research-Basic and Applied Research	10.206		(1,123)	-
Agriculture and Food Research Initiative (AFRI)	10.310		8,432	-
Wood Education and Resource Center (WERK)	10.681		73,572	-
SUBTOTAL DEPARTMENT OF AGRICULTURE			80,881	-
DEPARTMENT OF COMMERCE				
ARRA - Measurements and Engineering Research and Standards	11.609		97,367	-
DEPARTMENT OF DEFENSE				
Department of Defense Contracts				
Through 3DSIM, LLC	12.000	N6833517C0624	39,966	-
Through Ceramics Composites and Coatings Company	12.000	W912HZ-16-C-0015-P00001	52,561	-
Through Corvid Technologies	12.000	STTR N11A-T028	6,955	-

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through InfoBeyond Technology LLC	12.000	Estreaming: Dynamic	59,529	-
Through NexGen Aeronautics	12.000	SMART MATERIALS PO# 17-07	30,973	-
Through Orbital ATK, Inc	12.000	3021700145	62,230	-
Through QuesTek Innovations LLC	12.000	PO 1400, 1675	60,006	-
Through Raytheon Company	12.000	PO 4201376716	57,468	-
Through Spectral Sciences, Inc.	12.000	SVIBRATION DETECTION	61,496	-
Through Spectral Sciences, Inc.	12.000	3442-001-47 COMPOSITEBOND	42,371	-
Through University of Pittsburgh	12.000	0055964-7	66,572	26,383
Basic and Applied Scientific Research	12.300		106,569	98,329
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		296,183	164,438
Military Medical Research and Development	12.420		1,274,787	3,080
Through Christine Kleinert Institute	12.420	W81XWH-13-2-0057	55,150	-
Through Christopher & Dana Reeve Foundation	12.420	CTN1,5,10,11	121,073	-
Through Clinical Research Foundation	12.420	MSRC-FY18-01	19,414	-
Through Feinstein Institute of Medical Research	12.420	500717UL	13,773	-
Through Jewish Hospital	12.420	CTA-09	(34,324)	-
Through Kessler Med Rehab Research and Edu Corp	12.420	435-01	48,763	-
Through University of Pittsburgh	12.420	0027150 (408007-2)	8,120	-
Basic Scientific Research	12.431		214,366	-
Information Security Grant Program	12.902		314,294	-
SUBTOTAL DEPARTMENT OF DEFENSE			2,978,295	292,230
DEPARTMENT OF INTERIOR				
Conservation Grants Private Stewardship for Imperiled Species	15.632		15	-
Research Grants	15.650		14,899	6,300
Assistance to State Water Resources Research Institutes				
Through University of Kentucky	15.805	3200000437-18-003	6,184	-
SUBTOTAL DEPARTMENT OF INTERIOR			21,098	6,300
DEPARTMENT OF JUSTICE				
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540		7,956	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		369,244	31,316
Through State of Kentucky	16.560	PON2 527 18000009391	55,422	-
Through University of Maryland	16.560	0000018580	85,959	-
Through Vanderbilt University	16.560	UNIV59385	28,660	-
National Sexual Assault Kit Initiative - Department of Justice Bureau of Justice Assistance B - Cooperative Agreements				
Through State of Kentucky	16.833	PON2 040 18000010891	11,815	-
Comprehensive Opioid Abuse Site-Based Program Bureau of Justice Assistance B - Cooperative Agreements, B - Project Grants				
Through Louisville/Jefferson Cty Metro Government	16.838	Louisville Law Enforcement	28,706	-
SUBTOTAL DEPARTMENT OF JUSTICE			587,762	31,316

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF TRANSPORTATION				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
Through University of Kentucky Research Foundation	20.505	3049025467-15-041	100,776	-
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
NASA Contracts	43.000		3,325	-
Through CFD Research Corporation	43.000	20160274 SLM Inconel 718	23,341	-
Through Kentucky EPScoR	43.000	3048112736-16-199	26,946	-
Through Space Telescope Science Institute	43.000	HST-AR-15008.008-A	6,160	-
Through Universal Technology Corporation	43.000	18-7623-03-C1	28,383	-
Through University of Kentucky Research Foundation	43.000	3210000183-16-119	95	-
Through University of Kentucky Research Foundation	43.000	3200000161-18-205	10,066	-
Aerospace Education Services Program	43.001		324,832	138,136
Through Columbia University	43.001	1(GG013215)	4,259	-
Through University of Kentucky Research Foundation	43.001	3049025881-18-287	6,339	-
Cooperative Agreements				
Through Baylor College of Medicine	43.003	NNX16A069A	85,080	-
Through University of Kentucky Research Foundation	43.008	3048111831-15-029	74,951	1,250
Through University of Kentucky Research Foundation	43.008	3200001466-18-042	5,165	-
Through University of Kentucky Research Foundation	43.008	320000161-16-230	6,764	1,788
Through University of Kentucky Research Foundation	43.008	3210000163-17-139	30,278	-
Through University of Kentucky Research Foundation	43.008	3210000183-17-138	21,972	-
Through University of Kentucky Research Foundation	43.008	3210000183-18-196	18,281	-
Cross Agency Support	43.009		61,086	-
SUBTOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			737,323	141,174
NATIONAL SCIENCE FOUNDATION				
National Science Foundation Contract	47.000		126,981	-
Engineering Grants	47.041		2,513,156	628,538
Through Tactile Anologics, LLC	47.041	Haptic Tactile Display	75,576	-
Through University of Michigan	47.041	3004865092	29,997	-
Mathematical and Physical Sciences	47.049		707,279	145,255
Through Ball State University	47.049	G1108-UL	40,506	-
Through Eastern Illinois University	47.049	FY2017-02	(255)	-
Geosciences	47.050		62,799	-
Computer and Information Science and Engineering	47.070		374,051	120,405
Biological Sciences	47.074		819,015	34,980
Social, Behavioral, and Economic Sciences	47.075		278,848	35,266
Education and Human Resources	47.076		357,403	-
Through Biological Sciences Curriculum Study	47.076	1503280	36,805	-
Through Tennessee Tech University	47.076	5-31289	48,121	-
Through University of Kentucky Research Foundation	47.076	3048111054-14-127	67,655	-
Office of International Science and Engineering				
Through University of Kentucky Research Foundation	47.079	3048111570-15-016	(2)	-

UNIVERSITY OF LOUISVILLE
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FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through University of Kentucky Research Foundation	47.079	3200000271-18-282	4,346	-
Office of Integrative Activities				
Through Kentucky EPScoR	47.083	3200000271-17-025	1,026	-
Through University of Kentucky Research Foundation	47.083	3200000271-16	712,999	-
SUBTOTAL NATIONAL SCIENCE FOUNDATION			6,256,306	964,444
DEPARTMENT OF VETERANS AFFAIRS				
Sharing Specialized Medical Resources	64.018		463,660	-
ENVIRONMENTAL PROTECTION AGENCY				
Regional Wetland Program Development Grants	66.461		1,319	2,709
Brownfields Training	66.814		207,645	66,650
SUBTOTAL ENVIRONMENTAL PROTECTION AGENCY			208,964	69,359
DEPARTMENT OF ENERGY				
U.S. Department of Energy Contract				
Through Lawrence Berkeley National Laboratory	81.000	740019	7,817	-
Through Los Almos National Laboratory	81.000	420099	45,715	-
Through Los Almos National Laboratory	81.000	484668	4,199	-
Through U.S. ATLAS Management Office	81.000	338637	6,909	-
Renewable Energy Research and Development				
Through Electric Power Research Institute	81.087	4700002595	3,254	-
SUBTOTAL DEPARTMENT OF ENERGY			67,894	-
DEPARTMENT OF EDUCATION				
Education Research				
Through State of Kentucky	84.206	PON2 540	74,544	-
Through University of Connecticut	84.206	RSA# 68614 KFS# 5631600	62,730	-
Education Research, Development and Dissemination				
Through Development Services Group, Inc.	84.305	2015-01 ED-IES-15-D-0003	17,444	-
Through Virginia Commonwealth University	84.305	FP00002959_SA002	22,105	-
Research in Special Education	84.324		670,989	227,561
Through Oregon Research Institute	84.324	R324A150221	284,001	-
SUBTOTAL DEPARTMENT OF EDUCATION			1,131,813	227,561
DEPARTMENT OF HEALTH AND HUMAN SERVICES				

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Department of Health and Human Services Contracts	93.000		346,311	-
Through AtoxBio Ltd.	93.000	ATB-202	508	-
Through Christopher and Dana Reeve Foundation	93.000	NRN-2017	1,147,028	839,481
Through Duke Clinical Research Institute	93.000	CE 01-120	1,094	-
Through Duke Clinical Research Institute	93.000	NICHD-2011-POPS	699	-
Through Duke Clinical Research Institute	93.000	NICHD-2011-POP01	43	-
Through Duke Clinical Research Institute	93.000	NICHD-2015-REP01	30,240	-
Through Duke Clinical Research Institute	93.000	218092	1,029	-
Through Duke Clinical Research Institute	93.000	203-8391	12,732	-
Through Duke Clinical Research Institute	93.000	NICHD-2012-CLIN01	959	-
Through Espira, Inc.	93.000	Exosome and Oncosome	4,985	-
Through NRG Oncology Foundation, Inc.	93.000	NRG HN002	126	-
Through NRG Oncology Foundation, Inc.	93.000	EAY131 MATCH	116	-
Through NRG Oncology Foundation, Inc.	93.000	EA5142	233	-
Through NRG Oncology Foundation, Inc.	93.000	GOG-0281	268	-
Through NRG Oncology Foundation, Inc.	93.000	RTOG 0631	392	-
Through University of Maryland	93.000	1701881	69,057	-
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		1,475,972	-
Through Johns Hopkins University	93.077	2003783180	12,258	-
Through National American Heart Association	93.077	FX-ATRAC-UL1	1,876,770	-
Blood Disorder Program: Prevention, Surveillance, and Research				
Through University of North Carolina	93.080	5103566	3,740	-
Through University of North Carolina	93.080	5109318	2,278	-
Healthy Marriage Promotion and Responsible Fatherhood Grants				
Through Fatherhood Research & Practice Network	93.086	GB170637	22,241	-
Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse				
Through Eastern Kentucky University	93.087	453243-17-130	211	-
Food and Drug Administration Research				
Through Duke University	93.103	CTTI-001	20,628	-
Maternal and Child Health Federal Consolidated Programs	93.110	Evaluation Services	43,346	-
Adolescent Family Life Research Grants through Texas Health Institute	93.111	THI-2016-01	(4,152)	-
Biological Response to Environmental Health Hazards	93.113		3,338,891	265,059
Through University of Kentucky Research Foundation	93.113	3048111486-14-173	28,117	-
Oral Disease and Disorders Research	93.121		4,345,222	148,771
Through Research Foundation for SUNY at Buffalo	93.121	1R21DE027201-01	30,930	-
Through University of Bristol	93.121	ORCA 61045	30,593	-
Through University of Texas at Austin	93.121	UTA13-000775	17,850	-
Injury Prevention and Control Research and State and Community Based Programs	93.136		1,164,746	569,366
NIEHS Hazardous Waste Worker Health and Safety Training				
Through Duke University	93.142	2035908	18,124	-
Through Emory University	93.142	T953523	24,069	-
NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143		581,647	-
Human Genome Research	93.172		592,634	265,620
Through HudsonAlpha Institute for Biotechnology	93.172	20000.001.04-02	30,637	-
Through HudsonAlpha Institute for Biotechnology	93.172	20000.044.01-01	31,164	-
Through Vanderbilt University	93.172	VUMC59997	6,764	-
Research Related to Deafness and Communication Disorders	93.173		725,100	-
Through University of Virginia	93.173	GC11990-136407	(1,843)	-
Research and Training in Complementary and Alternative Medicine	93.213		424,611	-

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Research on Healthcare Costs	93.226		235,109	29,340
Mental Health Research Grants	93.242		141,625	70,046
Through University of California, San Francisco	93.242	8491SC	1,097	-
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		297,450	35,488
Occupational Safety and Health Research Grants	93.262		53,543	15,590
Alcohol Research Programs	93.273		3,912,748	54,400
Through Cleveland Clinic Lerner College of Medicine	93.273	728-SUB	51,892	-
Through EndoProtech Inc.	93.273	LIVER DIS R44AA021331	193,110	-
Through University of California, San Diego	93.273	56449095 / S90000837	124,330	-
Through Vanderbilt University	93.273	VUMC 64149	60,086	-
Drug Abuse Research Programs				
Through University of North Carolina	93.279	20150048.1	99,582	-
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		342,833	42,306
Through Bionic Eye Technologies, Inc.	93.286	5U01EB018873-03	24,465	-
Through Wake Forest University	93.286	WFUHS 115350	10,398	-
Trans-NIH Research Support	93.310		1,318,830	151,752
Through Massachusetts General Hospital	93.310	229365	119,548	-
Through Ohio State University	93.310	60059325	25,559	-
Through University of Florida	93.310	UFDSP00011499,11913	43,576	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program				
Through State of Kentucky	93.314	PO2 767 17000048521	22,511	-
Through State of Kentucky	93.314	PO2 767 1700004852 2	48,512	-
Paralysis Resource Center B - Cooperative Agreements (Discretionary Grants)				
Through Christopher and Dana Reeve Foundation	93.325	NRN-2015,2016(SH)	854,455	258,655
Nursing Research	93.361		49,340	-
Through University of Kentucky Research Foundation	93.361	3200001034-18-191	8,520	-
Research Infrastructure	93.389		(1,860)	-
Cancer Cause and Prevention Research	93.393		1,033,201	285,417
Through Baylor College of Medicine	93.393	CA187143	44,193	-
Through Georgia Regents Augusta State University	93.393	Educational Program	500	-
Through University of Kansas Medical Center	93.393	QU866910	28,406	-
Cancer Detection and Diagnosis Research	93.394		13,459	613
Through University of Massachusetts	93.394	OSP2016157	30,815	-
Through Wake Forest University	93.394	WFUHS 113201	3,400	-
Cancer Treatment Research	93.395		1,603,642	118,786
Through 3P Biotechnologies, Inc.	93.395	1R44CA221487-01	14,107	-
Through Alliance for Clinical Trials in Oncology	93.395	Z11102	8	-
Through Alliance for Clinical Trials in Oncology	93.395	A011202	1,283	-
Through Brigham & Women's Hospital	93.395	Alliance A151216	166	-
Through Children's Hospital of Philadelphia	93.395	COG AHOD1331	1,428	-
Through Children's Hospital of Philadelphia	93.395	COG AALL1331	7,026	-
Through Children's Hospital of Philadelphia	93.395	NIH COG CHAIR WK INT	(3,066)	-
Through Children's Hospital of Philadelphia	93.395	U10CA180886	27,691	-
Through Children's Hospital of Philadelphia	93.395	1UG1CA189955-01	7,278	-
Through FasCure Therapeutics LLC	93.395	NOVEL ADJUVANT SYSTE	11,658	-
Through NRG Oncology Foundation, Inc.	93.395	RTOG0920	160	-
Through Southwest Oncology Group	93.395	ECOG E5103	1	-
Through Wake Forest University	93.395	WFUHS 113942	5,389	-
Cancer Biology Research	93.396		1,246,195	60,518
Through University of Kentucky Research Foundation	93.396	3049025772-15-059	264,103	-

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through University of Nebraska Medical Center	93.396	34-5140-2063-001	61,800	-
Cancer Research Manpower	93.398		478,741	-
Refugee and Entrant Assistance_State Administered Programs	93.566		20,879	-
Head Start through Jefferson County Public Schools	93.600	(FED)JCPS Early Childhood	34,679	-
Child Welfare Services Training Grants				
Through University of Nebraska-Lincoln	93.648	24-0520-0227-004, 0249-003	280,072	-
Foster Care_Title IV-E				-
Through Eastern Kentucky University	93.658	PON2 736 1700002784	139,475	-
Trans-NIH Recovery Act Research Support				
Through EMMES Corporation, EPP (NCI)	93.701	1U01NS026835-01A1	378	-
Heart and Vascular Diseases Research	93.837		6,131,989	299,599
Through Brigham & Women's Hospital	93.837	5U01HL101422-03	81	-
Through Children's Hospital Boston	93.837	GENFD0001310440	77,479	-
Through Children's Hospital of Philadelphia	93.837	FP11498A1-SUB16-07	9	-
Through EndoProtech, Inc.	93.837	A NOVEL LIPOTHERAPY	(1,354)	-
Through Ension, Inc.	93.837	PED LIFE SUPPORT	(7,978)	-
Through HeartWare, Inc.	93.837	5R44HL103014-03	28,152	-
Through Massachusetts General Hospital	93.837	5U01HL123336-02	6,706	-
Through New York University Medical School	93.837	PV-10-EA-02	4,198	-
Through SCR, Inc.	93.837	2R44HL102981-02A1	271	-
Through University of Alabama at Birmingham	93.837	000514985-002	30,410	-
Through University of Florida	93.837	UFDSP00011610	17,643	-
Through University of Texas at Houston	93.837	CONCERT-HF	128,743	-
Through University of Texas at Houston	93.837	5UM1HL087318-09	14,019	-
Through University of Texas Medical Branch	93.837	17-064 / PO 1526	61,485	-
Through University of Utah	93.837	10041797 - LOUISVILLE	86,819	-
Through Yale University	93.837	EXERCISE IN GENETIC	150	-
Lung Diseases Research	93.838		534,151	-
Through Children's Hospital Boston	93.838	5U01HL107681-04	15,958	-
Through Johns Hopkins University	93.838	2003043501	28,255	-
Through University of Florida	93.838	UFDSP00011610	9,098	-
Blood Diseases and Resources Research	93.839		180,136	-
Through All Children's Research Institute, Inc.	93.839	ACRI 38-001 DOTT Trial	660	-
Through Rutgers University	93.839	SUB00000047	71,575	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,487,315	-
Through Cincinnati Children's Hospital Medical Center	93.846	138708	5,681	-
Through Oklahoma Medical Research Foundation	93.846	0246-05LOUI/S1610478	31,283	-
Through University of Chicago	93.846	FP050821	31,220	-
Diabetes, Endocrinology, and Metabolism Research	93.847		1,733,405	-
Through Exscien Corporation	93.847	INSULIN RESIST TREAT	51,463	-
Through Fascure Therapeutics, LLC	93.847	1R41DK111314-01A1	37,470	-
Through Johns Hopkins University	93.847	JHU 2003172574	504	-
Through Nationwide Children's Hospital	93.847	700043-0518-00	15,100	-
Through Nationwide Children's Hospital	93.847	82137416	210,582	-
Through Noveratech, LLC	93.847	DIABETIC FOOT ULCERS	(16,311)	-
Through Noveratech, LLC	93.847	2R44DK105692-02	248,900	-
Through Ohio State University	93.847	60056720 / RF01466576	42,810	-
Through Rush University Medical Center	93.847	13032902-Sub3	20,152	-
Through University of South Florida	93.847	TN-18	423	-
Through University of South Florida	93.847	TN-20	18	-

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through University of South Florida	93.847	TN01 TYPE 1 UDK097835A	1,897	-
Through University of South Florida	93.847	nbvgv TYPE 1 TN-16	669	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		2,580,819	96,387
Through Massachusetts General Hospital	93.853	INO-PD-P3-2014	12,392	-
Through Mayo Clinic	93.853	5U01NS080168-03	3,499	-
Through University of Washington	93.853	UWSC7771	74,208	-
Allergy, Immunology and Transplantation Research	93.855		6,780,674	1,488,407
Through Brigham & Women's Hospital	93.855	5UM1AI068636-09 - REVISED	14,517	-
Through Children's Hospital Boston	93.855	5R01AI084011-04	2,016	-
Through Dana Farber Cancer Institute	93.855	1261703	3,568	-
Through Duke University	93.855	203 8238	10,417	-
Through Duke University	93.855	203-8452	14,744	-
Through FasCure Therapeutics, LLC	93.855	VACC PLAGUE R41AI120353	3,917	-
Through Indiana University	93.855	BL-4624260-ULRF	69,415	-
Through Massachusetts General Hospital	93.855	225488	13,472	-
Through Massachusetts General Hospital	93.855	229712	5,861	-
Through Medigen, Inc.	93.855	2R44AI094863-03A1	71,730	-
Through Rosalind Franklin University of Medicine	93.855	212221UL	31,539	-
Through University of California-Berkley	93.855	00009352	18,065	-
Through University of Minnesota	93.855	N004761501	129,313	-
Microbiology and Infectious Diseases Research	93.856		294,251	-
Pharmacology, Physiology, and Biological Chemistry Research	93.859		9,725,994	1,500,264
Through Research Foundation for SUNY at Buffalo	93.859	R1059229	94,859	-
Through University of Kentucky Research Foundation	93.859	3200000086-16-014	31,908	-
Through University of Utah	93.859	10030565-LOU	12,842	-
Center for Research for Mothers and Children	93.865		551,691	-
Through Ann & Robert Lurie Children's Memorial Hospital	93.865	901461-Louisville	9,843	-
Through Stanford University	93.865	61281978-105015	5,547	-
Through University of Arkansas	93.865	ACT NOW	1,263	-
Aging Research	93.866		1,220,099	97,840
Through University of Kentucky Research Foundation	93.866	320000011-14-174	20,863	-
Vision Research - Retinal and Choroidal Diseases Research	93.867		3,693,861	309,813
Through Children's Hospital of Philadelphia	93.867	3209850815	4,861	-
Through Johns Hopkins University	93.867	MERIT Trial PO 2003556348	1,569	-
Through Ohio State University	93.867	60047172	146,069	-
Through University of Idaho	93.867	ABK809-SB-001	42,850	-
Through Virginia Tech Carilion	93.867	432007-19111	26,844	-
Through Washington University St. Louis School of Medicine	93.867	WU-16-123	30,911	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		75,131	-
Maternal and Child Health Services Block Grant to the States Through State of Kentucky	93.994	PO2 728 1600004752 1	256,126	-
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			67,261,478	7,003,518
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT				
United States Agency for International Development Contract Through National Academy of Sciences	98.000	2000007145	70,690	-

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FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			**80,064,307**	**8,735,902**
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER				
DEPARTMENT OF TRANSPORTATION				
Highway Planning and Construction				
Through State of Kentucky	20.205	PO2-628-0700011187	(5,933)	-
TOTAL HIGHWAY PLANNING AND CONSTRUCTION CLUSTER			**(5,933)**	-
SPECIAL EDUCATION (IDEA) CLUSTER				
DEPARTMENT OF EDUCATION				
Special Education_Grants to States				
Through Jefferson County Public Schools	84.027	JCPS Disproportionality	119,853	-
Through State of Kentucky	84.027	PON2 540 1500001985 1	46,999	-
Through State of Kentucky	84.027	PON2 540 1600002615 1	90,607	83,361
Through State of Kentucky	84.027	PON2 540 1600002548 1	24,585	35,397
Through State of Kentucky	84.027	PON2 540 1700002158 1	21,354	-
Through State of Kentucky	84.027	PON2 540 1700001845 1	313,470	165,370
Through State of Kentucky	84.027	PON2 540 1700002720 1	781,022	256,430
SUBTOTAL DEPARTMENT OF EDUCATION			1,397,890	540,558
TOTAL SPECIAL EDUCATION (IDEA) CLUSTER			**1,397,890**	**540,558**
TRIO CLUSTER				
DEPARTMENT OF EDUCATION				
TRIO - Student Support Services	84.042		212,541	-
TRIO - Talent Search	84.044		232,066	-
TRIO - Upward Bound	84.047		733,212	-
SUBTOTAL DEPARTMENT OF EDUCATION			1,177,819	-
TOTAL TRIO CLUSTER			**1,177,819**	**-**

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
MEDICAID CLUSTER				
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Medical Assistance Program				
Through Eastern Kentucky University	93.778	PON2 736 1700002784	104,517	-
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			104,517	-
TOTAL MEDICAID CLUSTER			104,517	-
TOTAL SPECIAL CLUSTERS			**2,674,293**	**540,558**
OTHER PROGRAMS				
DEPARTMENT OF AGRICULTURE				
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) through State of Kentucky	10.557	PO2 728 1600004675 1	294,708	-
SUBTOTAL DEPARTMENT OF AGRICULTURE			294,708	-
DEPARTMENT OF DEFENSE				
Department of Defense Contracts	12.000		95,984	-
Through GE Global Research	12.000	PO # 401004534	3	-
Through Techshot	12.000	TISSUE ENG VASCULAR	(84,544)	-
ROTC Language and Culture Training Grants	12.357		6,017	-
Basic	12.630		7,787	-
SUBTOTAL DEPARTMENT OF DEFENSE			25,247	-
DEPARTMENT OF JUSTICE				
Department of Justice Contract through DB Consulting Group, Inc.	16.000	PO2 736 1600004590 1	(11,854)	-
Legal Assistance for Victims				
Through Legal Aid Society, Inc.	16.524	2010-wl-ax-0050	(635)	-
Through Legal Aid Society, Inc.	16.524	OVW LAV 2014-2017	24,006	-
SUBTOTAL DEPARTMENT OF JUSTICE			11,517	-

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FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
DEPARTMENT OF STATE				
Academic Exchange Programs - Scholars	19.401		23,063	-
B - Cooperative Agreements, B - Project Grants	19.703		197,894	-
SUBTOTAL DEPARTMENT OF STATE			220,957	-
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION				
Education				
Through University of Kentucky Res. Fdn.	43.008	3200000722-17-004	64,050	-
NATIONAL ENDOWMENT FOR THE ARTS				
Promotion of the Arts_Grants to Organizations and Individuals	45.024		10,000	-
ENVIRONMENTAL PROTECTION AGENCY				
Pollution Prevention Grants Program	66.708		78,617	-
Through State of Kentucky	66.708	PON2 129 1600001930 1	60	-
Through State of Kentucky	66.708	PON2 129 1700001134 1	14,111	-
Through State of Kentucky	66.708	PON2 129 1800000875 2	37,807	-
Source Reduction Assistance	66.717		62,130	-
SUBTOTAL ENVIRONMENTAL PROTECTION AGENCY			192,725	-
DEPARTMENT OF ENERGY				
State Energy Program				
Through State of Kentucky	81.041	PON2 127 1700002151 1	(599)	-
Through State of Kentucky	81.041	PON2 127 1700002151 1	58,677	-
SUBTOTAL DEPARTMENT OF ENERGY			58,078	-
DEPARTMENT OF EDUCATION				
Department of Education Contracts				
Through Jefferson County Public Schools	84.000	JCPS Instructional Coding	156,438	-
Through University of Florida	84.000	1700517025, 1800563663	60,070	-
Career and Technical Education-Basic Grants to States				
Through Education Professional Standards Board	84.048	PO2 183 1800000310 1	3,319	-
Through State of Kentucky	84.048	PON2 540 1600002696 1	235	-
Through State of Kentucky	84.048	PON2 540 1700002917 1	12,950	-

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through State of Kentucky	84.048	PON2 540 1800000574 1	38,547	-
Special Education_Grants for Infants and Families with Disabilities				
Through State of Kentucky	84.181	PO2 748 1600005840 1	194,980	-
Special Education - State Program Improvement Grants for Children with Disabilities				
For Children with Disabilities				
Through State of Kentucky	84.323	PON2 540 1600000488 1	128	-
Through State of Kentucky	84.323	PON2 540 1700000388 1	257,547	-
Through State of Kentucky	84.323	PON2 540 1800000815 1	279,466	-
Special Education - Personnel Development to Improve				
Services and Results for Children with Disabilities	84.325		317,942	-
Gaining Early Awareness and Readiness for Undergraduate Programs				
Through State of Kentucky	84.334	PO2 41517000037391	100,162	-
Mathematics and Science Partnerships				
Through Carroll County Schools	84.366	All in for Algebra	23,846	-
Through Jefferson County Public Schools	84.366	RM 10-27-14	(36)	-
Through Jefferson County Public Schools	84.366	Math Science Partnership	65,758	-
Through State of Kentucky	84.366	PON2 540 1700000622 1	54,821	17,563
Through State of Kentucky	84.366	PON2 540 1800000884 1	175,203	9,579
Improving Teacher Quality State Grants				
Through National Writing Project	84.367	92-KY03-SEED2016	11	-
Through National Writing Project	84.367	92-KY03-SEED2016-ILI	160	-
Through National Writing Project	84.367	92-KY03-SEED2016-HNEval	1,156	-
Through National Writing Project	84.367	92-KY03-SEED2016-HNE	11,434	-
ARRA - Investing in Innovation (i3) Fund				
Through National Writing Project	84.411	92-KY03-2017i3AI	15,576	-
Through National Writing Project	84.411	92-KY03-2018i3C3WP	2,925	-
SUBTOTAL DEPARTMENT OF EDUCATION			1,772,638	27,142
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Department of Health and Human Services Contracts				
Through Duke University	93.000	DMID 14-0079	5,651	-
Through National Fragile X Foundation	93.000	FORWARD REGISTRY	3,780	-
Sexual Risk Avoidance Education	93.060		245,547	-
Public Health Emergency Preparedness through State of Kentucky	93.069	PO2 728 160000050531	121,312	-
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		831,440	-
Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse				
Through Eastern Kentucky University	93.087	PON2 736 1700002784	62,742	-
Through University of Maine	93.087	UMS-1091	12,993	-
Model State Supported Area Health Education Centers	93.107		720,389	554,599
Maternal and Child Health Federal Consolidated Programs	93.110	HHSF223201510636P	4,804	-
Emergency Medical Services for Children	93.127		14,955	-
Coordinated Services and Access to Research for Women, Infants, Children & Youth	93.153		409,350	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		115,496	22,592
Through Volunteers of America	93.243	1H79TI025542-01	39,419	-
Centers for Disease Control & Prevention: Investigations and Technical Assistance				
Through Catholic Charities	93.283	261-10-8080-2017	45,109	-

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
Through State of Kentucky	93.283	PON2 728 1600002294 1	52,334	-
Through State of Kentucky	93.283	PO2 728 1600005012 1	63,788	-
Through State of Kentucky	93.283	PO2 728 1600005011 1	128,542	6,481
Through University of Kentucky Research Foundation	93.283	3200001003-17-126	2,170	-
Through University of Kentucky Research Foundation	93.283	3200001340-18-074	45,713	-
Through University of Kentucky Research Foundation	93.283	3200001587-18-239	3,218	-
National State Based Tobacco Control Programs through State of Kentucky	93.305	PON2 7281600002074 1	29,795	-
Affordable Care Act (ACA) Public Health Training Centers Program				
Through Emory University	93.516	T657440,T846278	39,409	-
Refugee and Entrant Assistance_Discretionary Grants				
Through Catholic Charities, Inc.	93.576	252-10-8080-2016_2017	(1,049)	-
Family Violence Prevention and Services	93.592		67,372	38,148
Head Start				
Through Ohio Valley Education Cooperative	93.600	FY18 OVEC - UofL Early	(5)	-
Through Ohio Valley Education Cooperative	93.600	FY18 OVEC - UofL Early	123,934	-
Assistance for Torture Victims	93.604		248,822	-
Children's Justice Grants to States				
Through State of Kentucky	93.643	PO2 736 1600004590 1	198,913	-
Through State of Kentucky	93.643	PO2 736 1400004127 1	(4,044)	-
Adoption Opportunities	93.652		557,314	161,012
Foster Care Title IV-E				
Through Eastern Kentucky University	93.658	453224-17-122	(659)	-
Through Eastern Kentucky University	93.658	453227-17-121	4,985	-
Through Eastern Kentucky University	93.658	453226-17-131	(32)	-
Through Eastern Kentucky University	93.658	453234-17-128	(46)	-
Through Eastern Kentucky University	93.658	PON2 736 1700002784	163,521	-
Through Eastern Kentucky University	93.658	PON2 736 1700002784	140,528	-
Through Eastern Kentucky University	93.658	PON2 736 1700002784	212,960	-
Mental and Behavioral Health Education and Training Grants	93.732		98,984	-
Organized Approaches to Increase Colorectal Cancer Screening				
Through State of Kentucky	93.800	1 M01HP31363-01-00	26,806	-
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)				
Through State of Kentucky	93.815	PO2 728 1600006176 1	54,560	-
HIV Care Formula Grants				
Through State of Kentucky	93.917	PON2 728 1600002326 1	997,317	-
Through State of Kentucky	93.917	PO2 728 1600005009 1	979,373	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		692,055	-
Ryan White HIV/AIDS Dental Reimbursements	93.924		357,514	-
Geriatric Education Centers	93.969		781,853	107,211
Maternal and Child Health Services Block Grant				
Through State of Kentucky	93.994	PO2 728 1600004738 1	46,596	-
Through State of Kentucky	93.994	PO2 767 1600005577 1	16,369	-
Through State of Kentucky	93.994	PO2 728 1600004795 1	324,111	-
Through State of Kentucky	93.994	PO2 728 1600004432 1	16,754	-
SUBTOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			9,102,762	890,043
TOTAL OTHER PROGRAMS			**11,752,682**	**917,185**

UNIVERSITY OF LOUISVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grant or Program Title	CFDA #	Pass Through Entity #	Fiscal 2018 Expenditures	Amount Provided to Subrecipients
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 277,368,478**	**$ 10,193,645**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) of the University of Louisville (University) has been prepared in the format as set forth in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a consolidated summary of those expenditures of the University for the year ended June 30, 2018, which has been financed by the U.S. Government (Federal awards). For purposes of the Schedule, Federal awards include all Federal assistance and procurement relationships entered into directly and indirectly between the University and the Federal government and sub-awards from non-federal organizations made under federally sponsored agreements.

The accounting principles followed by the University and used in preparing the Schedule are as follows:

The schedule of expenditures of federal awards includes amounts expended by the University and its affiliated corporation, the University of Louisville Research Foundation, Inc.

Deductions (expenditures) for direct costs are recognized as incurred using the cash method of accounting and the cost accounting principles contained in Uniform Guidance. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general University activities (facilities and administrative costs) which are allocated to awards under negotiated formulas commonly referred to as indirect cost rates. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 – NON-CASH FINANCIAL ASSISTANCE

Outstanding loan balances at June 30, 2018 were as follows:

	CFDA #	Total
Federal Perkins Loan Program	84.038	$ 7,642,078
Health Professions Student - Medical	93.342	(34)
Health Professions Primary Care - Medical	93.342	3,936,337
Health Professions Student Loans - Dental	93.342	4,015,985
Nursing Student Loans	93.364	30,111
Loans to Disadvantaged Students - Medical	93.342	775,733
Loans to Disadvantaged Students - Dental	93.342	5,364
Total student loans outstanding		$ 16,405,574

Loans received by students for the period ending June 30, 2018 were as follows:

	CFDA #	Total
Federal Perkins Loan Program	84.038	$ 1,139,433
William D. Ford Federal Direct Loan Program	84.268	142,876,666
Health Professions Primary Care - Medical	93.342	276,747
Health Professions Student Loans - Dental	93.342	590,000
Loans to Disadvantaged Students - Medical	93.342	283,578
Total non-cash financial assistance		$ 145,166,424

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
University of Louisville
Louisville, Kentucky

We have audited, in accordance with the 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, the financial statements of University of Louisville, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2018.

Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. Other auditors audited the financial statements of the University Medical Center (a discretely presented component unit) in accordance with *Government Auditing Standards,* as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Louisville Foundation, Inc. and Affiliates, University of Louisville Real Estate Foundation, Inc., University of Louisville Physicians, Inc. (discretely presented component units), were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with those entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University of Louisville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University of Louisville's internal control. Accordingly, we do not express an opinion on the effectiveness of University of Louisville's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of Louisville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002.

University of Louisville's Response to Findings

University of Louisville's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. University of Louisville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
University of Louisville
Louisville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited University of Louisville's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of University of Louisville's major federal programs for the year ended June 30, 2018. University of Louisville's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of University of Louisville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about University of Louisville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of University of Louisville's compliance.

Opinion on Each Major Federal Program

In our opinion, University of Louisville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

University of Louisville's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. University of Louisville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of University of Louisville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered University of Louisville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University of Louisville's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003 that we consider to be significant deficiencies.

University of Louisville's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. University of Louisville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of University of Louisville as of and for the year ended June 30, 2018, and have issued our report thereon dated October 25, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	**Unmodified**			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	x	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	x	yes		none reported
Noncompliance material to financial statements noted?		yes	x	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	x	no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	x	yes		none reported
Type of auditors' report issued on compliance for for major programs?	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	x	yes		no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
Various	Research and Development Cluster

* See the Schedule of Expenditures of Federal Awards for identification of CFDA numbers applicable to the major programs.

Dollar threshold used to distinguish between type A and type B programs:	$3,000,000/ $750,000			
Auditee qualified as low-risk auditee?	x	yes		no

Section II – Financial Statement Findings

2018-001 Inadequate Controls over Approved Timesheet Report

Type of Finding: Significant Deficiency in Internal Control

Condition: During the testing of payroll disbursements for 60 employees (32 hourly and 28 salary), the auditors noted 8 instances where the employee's time sheet was not reviewed and approved by their supervisor. Additionally, one instance was noted where an employee received a performance award, but supporting documentation could not be provided to the auditors.

Criteria: Internal controls should be in place to provide reasonable assurance that the financial statements are prepared accurately and that significant balances have been reviewed. Per University policies, hourly employee's timesheets must be approved by the individual employee and the individual's immediate supervisor. Pay rates and performance increases must be approved by the Vice President and Dean.

Cause: The University's payroll system allows employers to be paid without noted approval of their timesheets, however, control are not in place to ensure those timesheets are reviewed after the payroll has been processed.

Effect: Failure to properly review and approve timesheets and performance awards could result in erroneous or fraudulent transactions and/or payroll disbursements recorded in the general ledger system.

Recommendation: The University should enforce controls that are currently in place to ensure timesheets are reviewed prior to processing payroll.

Management's Response: The University's policy is for timesheets to be reviewed by a supervisor prior to being processed for payment by the Payroll department. In the event a timesheet is not reviewed in the timeframe needed for payroll processing, the worked time is processed and paid without the supervisors review. In these cases, the supervisor is to review the timesheet after the fact. Follow-up of the timesheets to be approved will be enhanced with a report to the Director of Disbursements giving the processed timesheets that lack approvals. This report will be developed and put into service as soon as possible.

To further strengthen the controls around payroll processing, the Director of Disbursements will work with Human Resources to establish a protocol where all documentation and approvals for pay increases or one-time payments are retained centrally and accessible to the Director of Disbursements.

2018-002 Lack of Supporting Audit Documentation

Type of Finding: Significant Deficiency in Internal Control

Condition: Throughout the audit process, the auditors noted supporting schedules for several of the University's major account balances in the statement of net position had large unreconciled differences to the trial balance. After further investigation by University personnel, it was discovered that several of these differences pertain to balances recorded in previous years for which there is no support.

Criteria: Reconciliation of transactions and accounts and creation of supporting schedules are essential for accurate financial record keeping, financial statements, and disclosures. These supporting documents substantiate balances represented in the financial statements.

Cause: The University's decentralized accounting environment allows for transactions to be initiated and approved at the department level, including asset and liability accruals. The justification and support for the transactions are retained at the department level which does not allow for an efficient way to review University balances and compile them into one single schedule or reconciliation.

Effect: Lack of supporting schedules and reconciliations may result in the preparation of Financial Statements that inaccurately reflect the financial position of the University.

Recommendation: The University should implement policies and procedures throughout the different departments to ensure transactions and balances representing assets, liabilities, revenues and expenses are being reconciled and reviewed on a monthly basis.

Management's Response: The diversity, size and scope of the University's operations results in decentralized recordkeeping and accounting. Departments have financial personnel that are responsible for monitoring fiscal activities, budgets and reconciling transactions. At the University-wide level, the Controller's Office provides oversight of activities that are over-arching, such as treasury, debt and capital assets, disbursements, and overall financial reporting. The University is in agreement that overall review of asset and liability accounts needs to be performed periodically throughout the fiscal year in addition to the monthly reconciliation of revenue and expense transactions that occur at the department level. Personnel in Finance and Budget will work with the departments in conjunction with budget setting to review balances and accounts that are unsupported and determine the corrections needed.

Section III – Findings and Questioned Costs – Major Federal Programs

FINDING 2018-003 – Perkins Exit Counseling (Significant Deficiency/No questioned costs)

Federal Program: CFDA No. 84.038 Department of Education Federal Perkins Loan Program

Award Period: July 1, 2017 to June 30, 2018

Criteria: 34 CFR 674.42(b) - Exit counseling - An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution. As an alternative, in the case of a student enrolled in a correspondence program or a study-abroad program that the institution approves for credit, the borrower may be provided with written counseling material by mail within 30 days after the borrower completes the program. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Condition: Students who entered repayment during the fall semester of 2017 did not receive exit counseling communications within the 30-day timeframe required.

Cause: University management has indicated that staff turnover in the Bursar's office contributed to the noncompliance.

Effect: Exit counseling communications with students entering Perkins repayment were not conducted timely.

Repeat Finding: 2017-001

Recommendation: We recommend that the Bursar's office implement internal control improvements in order to ensure compliance with this requirement. Separation dates must be updated in a timely manner to allow for communication to occur with the students within 30 days.

Views of Responsible Officials: The deterioration of controls over exit counseling for students was identified during audit procedures performed for the June 30, 2017 fiscal year audit. The control weakness was mitigated after the issuance of the management comments letter for the June 30, 2017 audit, which occurred mid-year during the fiscal year ending June 30, 2018. The correction implemented was the assignment of an individual in the Bursar's office the responsibilities of loan monitoring, including ensuring exit counseling materials are provided to students in the appropriate manner and time frame. The sample of students tested for the June 30, 2018 audit were in the time period prior to assigning loan monitoring duties, therefore the deficiency in the control structure still existed. The University has addressed the issue and continues to monitor student loan activities.

Section IV – Prior Year Findings

2017-001

During our testing, it was noted that students who entered repayment during the fiscal year selected for testing did not receive exit counseling communications within the 30 day timeframe required.

Status: Issue repeated in FY18 as finding 2018-003.