

**UNIVERSITY OF LOUISVILLE AND AFFILIATED
CORPORATIONS**

A Component Unit of the Commonwealth of Kentucky

**Auditors' Report and Financial Statements
June 30, 2019 and 2018**

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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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, 2019 and 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, 2019 and 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.

Other Matters

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2019, 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.

Board of Trustees
University of Louisville and Affiliated Corporations

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 3, 2019

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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 and Affiliated Corporations (the University) for the years ended June 30, 2019 and 2018. 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, 2019, 2018, and 2017. 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, 2019, with total assets and deferred outflows of resources of \$1.3 billion that exceed total liabilities and deferred inflows of resources of \$595.3 million by a ratio of over 2:1, consistent with the ratio as of June 30, 2018. 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 \$731.0 million as of June 30, 2019.
- Net position grew by \$23.3 million during the year ended June 30, 2019. The increase included an increase of capital assets of \$15.0 million, an increase from restricted activities of \$3 million and an increase from unrestricted activities of \$5.0 million. Unrestricted net position moved to a deficit with the adoption of GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2018.

- Gross tuition and fees were \$319.2 million for the year ended June 30, 2019, an increase of \$9.1 million, or 3% compared to the \$310.1 million reported in the previous year. Overall demand remains strong for the University of Louisville despite national trends in higher education.
- Total general fund appropriations from the Commonwealth of Kentucky were \$128.9 million for the year ending June 30, 2019. State appropriations were down about \$4.0 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 \$769.3 million and operating expenses were \$1,065.6 million resulting in a net operating loss of \$296.3 million. When adjusted for \$128.9 million in state appropriations and \$190.7 million in other net nonoperating revenues and other revenues, net position of the University increased by \$23.3 million for the year ended June 30, 2019. The increase in clinical services and practice plans of \$25.3 million is the result of additional academic program support from two affiliate entities totaling \$30.0 million. Increases in capital gifts, tuition and fees, and governmental contracts and grants contributed to the remaining increase in net position.
- Operating expenses increased to \$1,065.6 million in 2019 from \$1,033.3 million in 2018. The increase relates primarily to increased salary expense from a coaching contract payout and increased supplies and services in the areas of academic and institutional support. The university invested heavily in resources to improve and enhance the student experience in 2019.

Overview – Fiscal Year Ended June 30, 2019

The following is a brief discussion of events during fiscal year 2019 that had a significant impact on the financial performance and net position of the University:

- On June 20, 2019, the University approved a non-binding letter of intent with ULP and Norton Healthcare (Norton) to transition the management of the University pediatrics' clinical activities to Norton. The agreement is expected to be finalized in early 2020 and will develop closer alignment of pediatric resources and services for the benefit of children's health. In connection with the transition of the pediatric clinical enterprise, Norton agreed to pay the University up to \$15 million to cover incremental costs it will incur up to closing of the transaction to maintain operations at an agreed upon level. Norton paid \$10 million to the University to cover transition costs through June 30, 2019 which was recorded as clinical revenue by the University in its 2019 financial statements.
- On May 10, 2019 Evolent Health Inc. (Evolent) and ULP, Norton Healthcare, Inc., UMC, Jewish Heritage Fund for Excellence, Inc. and Louisville Primary Care Association reached an agreement whereby Evolent would buy a 70% stake in Passport Health Plan for \$70 million. The transaction is expected to close in early fiscal 2020. In connection with the pending sale, UMC agreed to pay the Research Foundation an additional \$15 million for mission support of the Medical School. The additional support is for prior and unrecovered losses of the Medical School.
- During fiscal 2019, four major construction projects were completed: an expansion and renovation of the Swain Student Activities Center, an expansion of Cardinal Stadium, a new academic building on Belknap Campus, and a television production studio which was a requirement of joining the Atlantic Coast conference (ACC). All of these facilities opened in fall of 2018.
- On June 28, 2019, the University and Jewish Heritage Fund for Excellence, Inc. as sole members of the Cardiovascular and Innovation Institute (CII) agreed to its dissolution effective June 30, 2019. The Jewish Heritage Fund for Excellence agreed to gift to the University any improvements in the CII at the time of the dissolution. The University recorded \$16.6 million in capital gifts in 2019 representing the appraised value of Jewish Heritage Fund for Excellence's improvements.

- The University of Louisville Foundation (ULF) gifted a dorm to the University with a market value of \$4.5 million. The gift is reflected as a capital gift in the accompanying statements of Revenues, Expenses and Changes in Net Position for 2019.
- The University utilized excess cash and invested in short-term and long-term investments resulting in additional investment income of approximately \$2 million.

Statements of Net Position

Condensed Statements of Net Position June 30, 2019, 2018, and 2017 (In Thousands)

	2019	2018	2017	2019 - 2018 Change	2018 - 2017 Change
ASSETS					
Current assets	\$ 242,335	\$ 199,539	\$ 215,791	\$ 42,796	\$ (16,252)
Long-term investments	17,271	1,360	1,560	15,911	(200)
Capital assets, net	976,355	971,395	891,944	4,960	79,451
Other	82,255	128,582	175,801	(46,327)	(47,219)
Total assets	1,318,216	1,300,876	1,285,096	17,340	15,780
DEFERRED OUTFLOWS OF RESOURCES	8,080	9,680	7,412	(1,600)	2,268
LIABILITIES					
Current liabilities	183,370	178,735	171,923	4,635	6,812
Noncurrent liabilities	329,765	362,857	322,935	(33,092)	39,922
Total liabilities	513,135	541,592	494,858	(28,457)	46,734
DEFERRED INFLOWS OF RESOURCES	82,129	61,275	49,436	20,854	11,839
NET POSITION					
Net investment in capital assets	716,400	701,024	660,316	15,376	40,708
Restricted-nonexpendable	4,710	1,633	1,633	3,077	-
Restricted-expendable	79,510	79,622	84,825	(112)	(5,203)
Unrestricted	(69,588)	(74,590)	1,440	5,002	(76,030)
Total net position	\$ 731,032	\$ 707,689	\$ 748,214	\$ 23,343	\$ (40,525)

Assets

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

The increase in cash and investments is attributable to the enhanced cash management and investment policies. Due from Affiliates increased due to a receivable from an affiliate of \$15 million, reduced by other payments on current due from affiliate balances.

In fiscal year 2019, current assets increased \$42.8 million due primarily to a increase of \$29.6 million of cash and cash equivalents, and a reduction in investments held with the Foundation totaling \$2.6 million. and a \$11.6 million increase in due from affiliates. Investments held by the Foundation were liquidated to pay deferred compensation, settle contractual obligations for a new coach's contractual buy-out and fund a settlement with the NCAA upon conclusion of an investigation into the men's basketball program. Due from affiliates increased \$11.6 million due to a stream-lined process to receive funding from the Foundation.

Capital assets, net of accumulated depreciation, represented 74% of total assets as of June 30, 2019. Noncurrent loans, accounts and contributions receivable, restricted cash and cash equivalents, and due from the Foundation comprise the remainder of assets.

Noncurrent assets decreased \$25.5 million in fiscal 2019. Capital assets, net increased \$5.0 million due mainly to the completion of construction projects described in the financial overview. Offsetting this increase is restricted cash and cash equivalents that decreased \$33.7 million due to progress payments to contractors on construction projects, due from affiliates that decreased approximately \$15.0 million for repayment from the University of Louisville Real Estate Foundation (ULREF) of approximately \$3.5 million on a loan and \$10.0 million received from UMC relating to accounts receivable assigned to the University during negotiations to dissolve the AAA with KOH.

Noncurrent assets increased \$32.0 million in fiscal 2018 driven by construction and related financing. Capital assets increased \$79.5 million for construction projects. Restricted cash and cash equivalents of \$26.9 million for payments to vendors and contractors for the construction projects. Long-term accounts and contributions receivable 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.

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 and OPEB paid after the actuarial measurement date but before fiscal year end to be expensed in the new year.

In fiscal year 2019, deferred outflows decreased \$1.6 million mainly due to amortization of deferred loss on bond refinance of \$1.0 million and a reduction of \$0.6 million in the amount of OPEB paid after the actuarial measurement date and recorded as a deferred outflow.

In fiscal year 2018, deferred outflows decreased \$2.3 million mainly due to amortization of deferred loss on bond refinance of \$1.1 million partially 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.

Liabilities

Accounts payable and accrued liabilities and advances comprise 86% of total current liabilities. Current liabilities increased \$4.6 million in fiscal year 2019, primarily due to the increase of \$2.6 million in deferred compensation and wages payable and by the increase of \$1.15 million in the current portion of bonds and notes payable.

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. The \$33.1 million decrease in noncurrent liabilities in fiscal year 2019 primarily included a \$13.1 million decrease in bonds and notes payable, a \$24.1 million decrease in other long-term liabilities, and a \$3.0 million decrease in deferred compensation and wages payable. The \$33.1 million decrease in noncurrent liabilities was principally due to a reduction in the other postemployment benefits liability of \$24.0 million due to changes in actuarial assumptions. Additionally there was a reduction of \$13.1 million in long-term bonds and notes payable due to current year payments of principal. The decrease in deferred compensation and wages payable is the result of the payout of benefits to employees of the Association.

Current liabilities increased \$6.8 million in fiscal year 2018, primarily due to the \$12.5 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. Noncurrent liabilities increased by \$39.9 million primarily included a \$3.9 million decrease in bonds and notes payable and an increase of other postemployment benefits liability of \$43.0 million related to the adoption of GASB 75.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. In fiscal year 2019 the University recognized a reduction of \$4.0 million deferred inflows to reflect receipts related to service concession arrangements for foodservice, bookstore and printing services. Deferred inflows increased \$23.5 million related to a change in actuarial assumptions and the difference between expected and actual experience used in the calculation of the OPEB liability. The deferred inflow 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 \$1.4 million 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 2018 the University recognized an increase of \$4.5 million deferred inflows to reflect future receipts related to new foodservice and bookstore concession arrangements, an increase of \$7.2 million related to a change in actuarial assumptions and the difference between expected and actual experience used in the calculation of OPEB liability. 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 the value are recognized as deferred inflows and outflows.

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 2019, net position increased \$23.3 million. The improvement was driven by a reduction in operating loss of \$19 million, an improvement of about \$20.2 million for the year end June 30, 2018. The decreased operating loss is principally due to increased clinical revenues recognized in 2019 of \$25 million related to academic program support of \$10.0 million received from an affiliate and \$15.1 million received from an affiliate for mission support, increased intercollegiate athletics of \$10.3 million related to contract revenue from Adidas, increased revenue from football due to one additional home game, and increased basketball revenue due to hosting the NCAA Men's Basketball South Regionals. Tuition and fees increased also by \$5.8 million, due to a planned increase of 3.5 – 3.8 percent in resident and nonresident undergraduate tuition rates. State appropriations decreased \$4 million or 3% to provide funding for the Commonwealth's pension system; other nonoperating revenues, mainly gifts, decreased \$3.0 million or 10 percent to explain \$6.3 million decrease in net other nonoperating revenues. Capital appropriations decreased \$21.8 million principally related to timing of the completion of the construction of an Academic Building. Offsetting the decrease in capital appropriations, capital gifts that are mainly related to construction projects of the Association increased \$14.6 million due to the Next Step campaign

In fiscal year 2018, Total Net Position increased \$3.0 million as compared to an increase of \$12.9 million for June 30, 2017. The University's operating loss increased by \$48.4 million as operating revenues decreased more than operating expenses, in large part due to expenses incurred in 2018 associated with revenue recorded in 2017. 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 by \$17.2 million due to a change in the way the University received funding.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position Years ended June 30, 2019, 2018, and 2017 (In Thousands)

	2019	2018	2017	2019 - 2018 Change	2018 - 2017 Change
OPERATING REVENUES					
Student tuition and fees, net	\$ 223,173	\$ 217,395	\$ 221,626	\$ 5,778	\$ (4,231)
Clinical services and practice plan	287,393	262,096	335,065	25,297	(72,969)
Grants and contracts	105,840	98,715	90,158	7,125	8,557
Facilities and administrative cost recoveries	28,248	27,035	25,064	1,213	1,971
Other	124,625	112,684	132,149	11,941	(19,465)
Total operating revenues	769,279	717,925	804,062	51,354	(86,137)
OPERATING EXPENSES					
Depreciation	52,213	48,780	48,503	3,433	277
Other	1,013,360	984,491	1,023,034	28,869	(38,543)
Total operating expenses	1,065,573	1,033,271	1,071,537	32,302	(38,266)
NONOPERATING REVENUES (EXPENSES)					
State appropriations	128,930	132,959	134,508	(4,029)	(1,549)
Other nonoperating revenues	190,707	185,470	161,690	5,237	23,780
Total nonoperating revenues	319,637	318,429	296,198	1,208	22,231
Increase/(decrease) in net position	23,343	3,083	28,723	20,260	(25,640)
Net position - beginning of year	707,689	748,214	719,491	(40,525)	28,723
Cumulative effect of change in accounting principle	-	(43,608)	-	-	-
Net position - beginning of year	707,689	704,606	719,491	3,083	(14,885)
Net position - end of year	\$ 731,032	\$ 707,689	\$ 748,214	\$ 23,343	\$ (40,525)

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, gifts and contributions from Foundation are considered non-operating revenues.

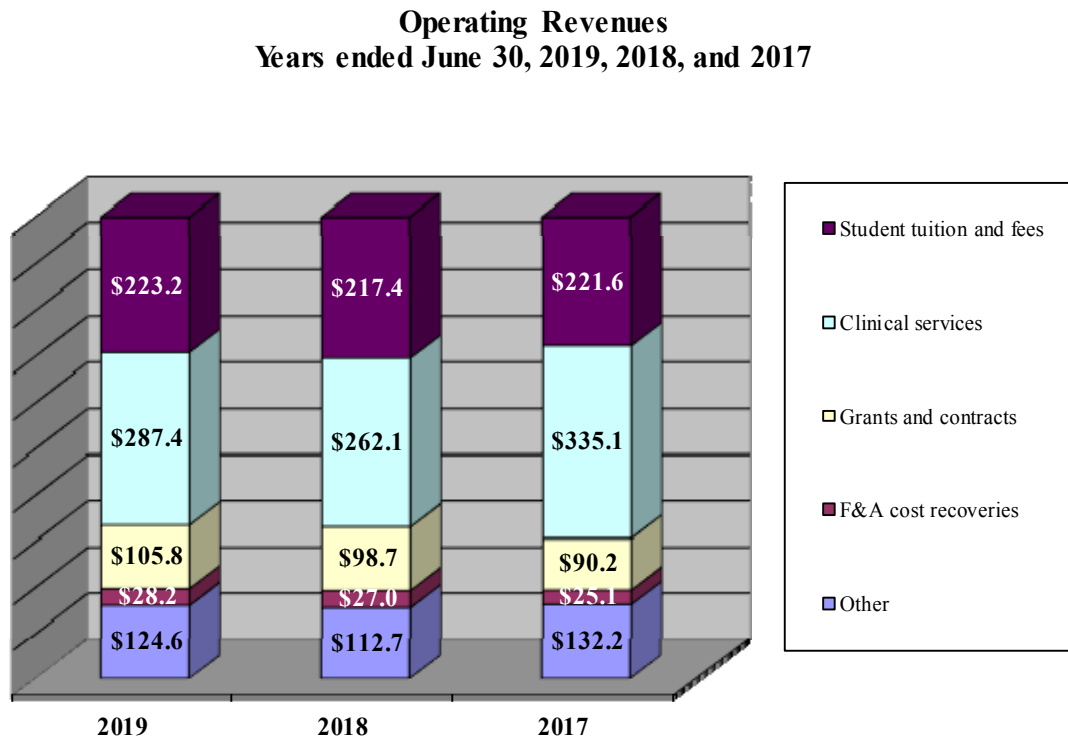
Student tuition and fees, net of allowances for scholarships and fellowships were \$223.2 million and \$217.4 million, or 29% and 30% of total operating revenues for the years ended June 30, 2019 and 2018, respectively. The University adopted a 3% gross tuition rate increase for 2019 and had no change 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 2019 and 2018, scholarship and financial aid expense was about the same as in the prior year and wasn't a factor in an overall \$5.8 million or 3% increase in net tuition revenue. In fiscal year 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.

Clinical services and practice plan revenue amounted to \$287.4 million and \$262.1 million, or 37% of total operating revenues for fiscal years 2019 and 2018, 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 increase in revenue for 2019 totaling \$25.3 million or 10% resulted from the incremental revenues received for academic and program support of clinical operations totaling \$20 million from affiliates and \$10 million of transition support steaming from an agreement with Norton Healthcare, Inc., offset by losses from operational activities.

Revenue from operating grants and contracts were \$105.8 million and \$98.7 million for the years ended June 30, 2019 and 2018, respectively. This increase reflects improved revenue from Federal grants of \$6.9 million, state and local grants of \$3.1 million and a reduction of nongovernment grants and contracts of \$2.9 million.

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 \$28.2 million and \$27.0 million for the years ended June 30, 2019 and 2018, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

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, 2019, 2018, and 2017 (in millions):

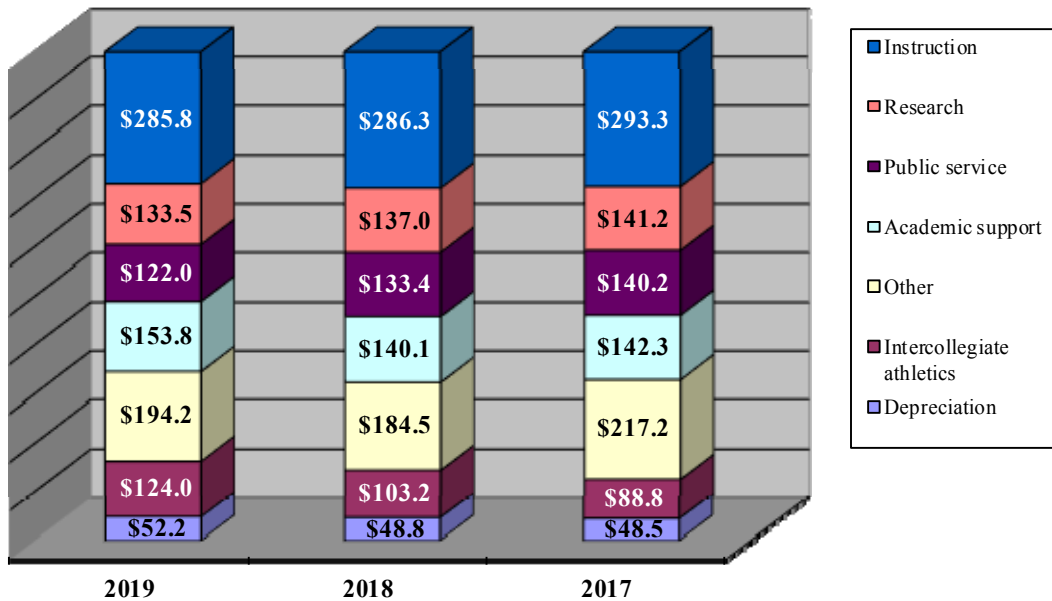


Operating Expenses

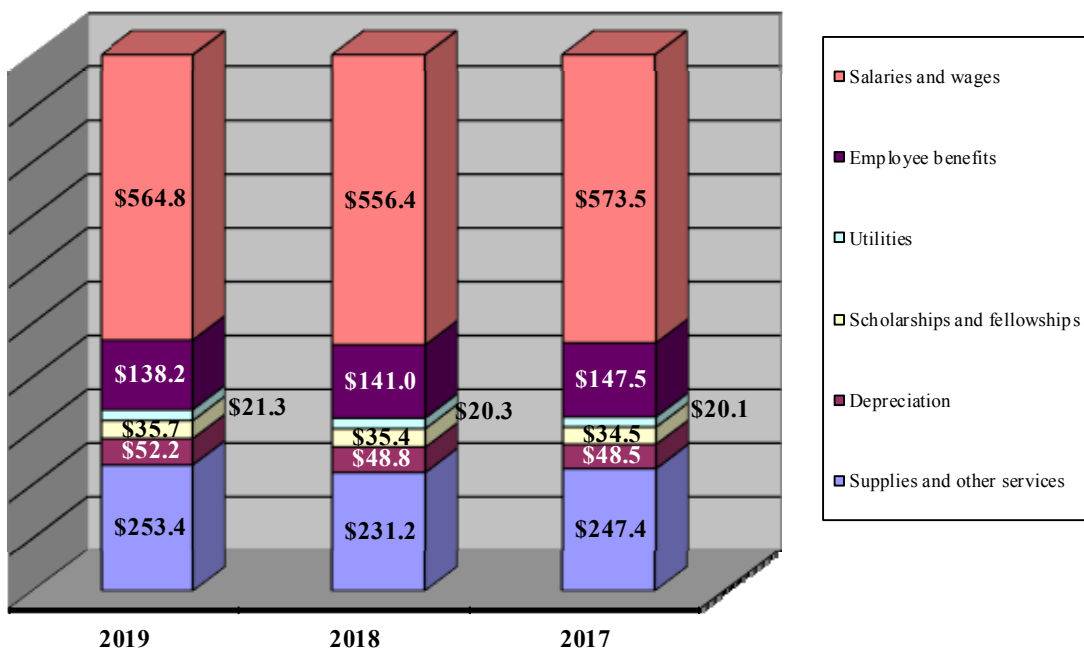
Operating expenses were \$1.07 billion and \$1.03 billion and exceeded operating revenues by \$296.3 million and \$315.3 million for the years ended June 30, 2019 and 2018, respectively. In fiscal 2019, operating expenses increased \$32.3 million or 3%. Among functional classifications, the most significant increases were in academic support of \$13.7 million, and intercollegiate athletics of \$20.8 million. The increase in academic support is enhancement of student learning and services. The increase in intercollegiate athletics is mostly due to the buyout of a contract for a new coach and payout of a contract and related taxes of a former coach totaling \$16.8 million.

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2019, 2018, and 2017 (in millions) are summarized as follows and on the following page:

Operating Expenses by Functional Classification
Years ended June 30, 2019, 2018, and 2017



Operating Expenses by Natural Classification
Years ended June 30, 2019, 2018, and 2017



Nonoperating Revenues (Expenses)

In fiscal year 2019 net nonoperating revenues and other revenues increased \$1.2 million. Capital gift revenue increased \$35.6 million as a result of the Next Steps Capital Campaign of \$14.6 million and contributions of a dorm and medical research building of \$4.5 million and \$16.0 million, respectively. This increase was offset by decreases in state appropriations of \$4.0 million, capital appropriations of \$21.8 million, gift revenue of \$3.0 million and contributions from the Foundation of \$6.3 million. Capital appropriations reduction is due to with the completion of the Academic Building funded by the state. Contributions from the Foundation are based on reimbursable expenses spent by the University. The reduction in Foundation funding corresponds to reduced spending of endowment and gift funds.

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. 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.

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, 2019, 2018, and 2017 are summarized below:

	2019	2018	2017	2019 - 2018 Change	2018 - 2017 Change
Cash (used)/provided by:					
Operating activities	\$ (208,839)	\$ (248,014)	\$ (261,736)	\$ 39,175	\$ 13,722
Noncapital financing activities	256,510	305,917	254,591	(49,407)	51,326
Capital and related financing activities	(33,630)	(86,364)	(15,058)	52,734	(71,306)
Investing activities	(18,093)	5,740	9,730	(23,833)	(3,990)
Net (decrease)/increase in cash and cash equivalents	(4,052)	(22,721)	(12,473)	18,669	(10,248)
Cash and cash equivalents, beginning of year	116,655	139,376	151,849	(22,721)	(12,473)
Cash and cash equivalents, end of year	<u>\$ 112,603</u>	<u>\$ 116,655</u>	<u>\$ 139,376</u>	<u>\$ (4,052)</u>	<u>\$ (22,721)</u>

Total cash and cash equivalents decreased by \$4.1 million during 2019. Cash used in operations decreased by \$39.1 million during 2019 to \$208.8 million. Cash provided by clinical services and practice plan went from \$267.8 million to \$293.4 million. The \$25.6 million increase in clinical services was attributed to academic program support of \$10.0 million received from an affiliate and \$15.1 million received from an affiliate for mission support. Payments to suppliers decreased by \$9.6 million due to the continuing effect of cost savings initiatives put in place during 2018 to reduce spending. Intercollegiate athletics provided \$9.6 million more in operating cash primarily because of increased cash during 2019 from the contract with Adidas, increased cash from football ticket sales due to one additional home game and increased cash from guarantee revenue, and increased cash from basketball revenue due to hosting the NCAA Men's Basketball South Regionals. Cash from grants and contracts increased \$12.2 million due to increased awards. During the fiscal year ended June 30, 2019, total awards were \$152.1 million, an increase of \$14.2 million or 10.3%, as compared to fiscal year 2018. The University experienced a reduction in cash from auxiliary enterprises of \$16.2 million which relates to decreased benefits under the food service contract with Aramark.

Cash provided by noncapital financing activities decreased \$49.4 million. A change in Foundation funding mechanics resulted in \$14.9 million less cash contributions from related entities during the year together with \$17.1 million decreased cash from gifts and grants. Cash provided by noncapital and related financing activities also includes the Research Foundation's support from the University of \$23.6 million for operating revenue shortfalls. Cash from gifts relates to the collection of pledges of the Association.

The University consumed \$33.6 million in cash for capital and related financing, \$52.7 million less than prior year. Purchases of Capital Assets decreased \$48.9 million in fiscal 2019 as the University was previously engaged in three major construction projects. Cash used for principal repayments decreased \$8.5 million. Cash provided by Capital Gifts increased \$22.5 million during the year due to timing of construction projects for the Association. Debt for refinancing and capital projects continued at a slower pace in fiscal 2019 compared to the prior year with \$8.0 million lower proceeds from debt and 19.8 million less cash from capital appropriations.

Investing activities used \$18.1 million in cash during fiscal year 2019, \$23.8 million less than fiscal 2018. Proceeds from maturing investments of \$10.1 million were supplemented by cash from investment earnings totaling \$3.9 million.

Total Cash and Cash Equivalents decreased by \$22.7 million during fiscal year 2018. Operating activities consumed \$13.7 million less cash during the year compared to prior year. Notably increased receipts included \$30.1 million from auxiliary enterprises related to the food service contract with Aramark, and \$10.3 million higher receipts from intercollegiate athletics. These sources of cash were more than offset by payments to employees and payments for benefits of \$137.5 million and payments to suppliers of \$237.4 million. Net cash from operating activities includes \$267.8 million from clinical services and \$218.8 million from student tuition and fees.

Cash provided by noncapital financing activity receipts related to a change in Foundation funding mechanics which resulted in an increase of \$49.7 million cash from contributions from the Foundation during the year together with support from the University of \$18.3 million for operating revenue shortfalls. Cash provided during 2018 by noncapital financing activity was net of the decrease of \$4.3 million in state appropriations.

The University consumed \$86.4 million during fiscal 2018 in cash for capital and related financing, \$71.3 million more than prior year. Cash used for principal repayments increased \$32.8 million. Cash provided by capital appropriations increased by a \$22.0 million during the year. Offsetting these cash sources, purchases of Capital Assets increased \$37.9 million in fiscal 2018 as the University engaged in three construction projects. Debt refinancing continued at a slower pace in fiscal 2018 compared to prior year with \$69.7 million lower proceeds from the issuance of debt.

Investing activities produced \$4.0 million less cash during fiscal year 2018. 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 2019

Student Activity Center Renovation	\$ 40,371,561
Belknap Classroom Building	83,560,000
PJCS Stadium North End Zone Expansion	63,250,000
ULAA AV Production Studio	10,000,000
Dental Office Renovation	1,415,000
Security and Firewall Infrastructure	8,275,835
Athletic Practice Soccer Field	2,000,000
Electronic Video Boards	2,000,000
Parking Equipment Replacement	2,600,000

COMPLETED IN 2018

Cardinal Arena Renovation	\$369,400
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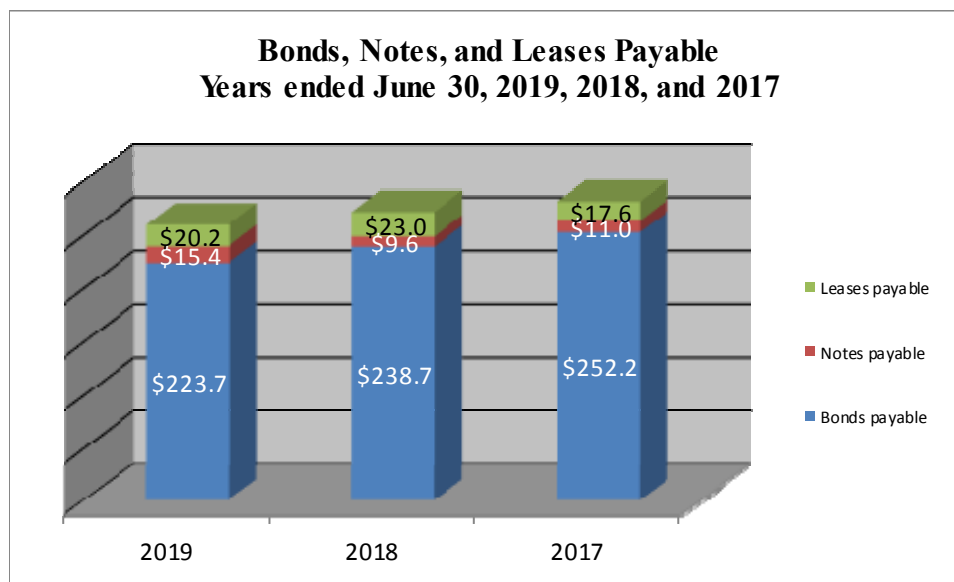
IN PROGRESS OR APPROVED AND NOT STARTED

Ekstrom Library 3rd Floor Renovation	\$49,364,439
HSC Instructional Building Upgrades	9,008,700
Dental Office Renovation	1,000,000
Robotic Book Retrieval System Expansion	4,900,000
RRC Dock Modification	Planning
Campus Dorms	Planning

Debt and Financing Activities

At the end of fiscal year 2019, the University had outstanding \$259.3 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to \$271.3 million and \$280.8 million in 2018 and 2017, respectively. The 2019 decrease represents the normal pay down of long term bonds partially offset by issuances of master lease obligations totaling \$9.1 million to fund purchases of equipment and capital assets. 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 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, 2019, 2018, and 2017 (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, 2019, were \$719.8 million, an increase of \$7.5 million from the June 30, 2018 balance of \$712.3 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 remains steady to strong with real GDP growth around 2.5%, unemployment at the “natural rate”, and interest rates expected to remain low. Matters that may negatively impact the economy are 1) higher tariffs on imports and retaliation tariffs imposed by foreign countries, 2) financial markets creating “exotic instruments” to boost returns due to low interest rates, and 3) a potential 10 percent decrease in stimulus spending effective October 2019 required by the Budget Control Act of 2011.
- Bipartisan Budget Act of 2019 has potential for appropriations bills to contain repeal provisions of unpopular portions of the Tax Cuts and Jobs Act of 2017 (TCJA), including parking and transportation unrelated business income tax (UBIT), the UBIT basketing requirement, and even the net investment income tax on colleges and universities.
- The University expects growth of federal grants and contracts revenue, in the 4% to 5% range over the next year. Revenue growth will benefit from increased funding for the National Institutes of Health, up over 5%, for fiscal 2019.
- The economic outlook for the Commonwealth of Kentucky is also steady to strong. The Commonwealth of Kentucky ended fiscal 2019 with an approximate \$195 million revenue surplus due primarily to the base-broadening tax measure changes that became effective July 1, 2018. The final fiscal year 2019 General Fund receipts increased 5.1 percent over 2018 and rose for the ninth consecutive year. Personal income grew by 4.1 percent in the fourth quarter of 2019 and is expected to grow at a solid rate of 4.5 percent over the next three quarters.
- Red flags still exist due to the state’s continued public pension system deficits. Kentucky’s adjusted net pension liability (ANPL) relative to state revenues was the third highest among the 50 US states. The state remains at risk due to legislation passed that provides a reprieve for a second consecutive year on substantial pension contributions from certain governmental entities and also provides these entities with the option to buy out of their pension and retiree healthcare (OPEB) liabilities. By offering entities an economic discount through new buyout provisions, the state will secure either lump-sum payments or recurring contributions from other participating entities to help pay for KERS-NH liabilities, which pushes costs into the future and raises the likelihood that the state will take responsibility for a greater share of KERS' unfunded liability.
- 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. However, Kentucky’s new base-broadening tax measures may provide some relief from these expected future cuts.

- 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 adds an element of budgetary uncertainty for the university. Kentucky first implemented a performance-funding model in 2017. Under existing statute, 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.
- Revenues will be constrained as low tuition revenue growth remains the most difficult business condition. Concerns about affordability and return on investment within this competitive landscape will continue to curtail growth in net tuition revenue (projected at 1%-3.5% for most) as Gen Z is more focused on value and price.
- Universities will continue to experiment with changing financial aid models. Financial aid strategies are used to meet multiple goals, such as growing overall tuition revenue while achieving enrollment targets, increasing student diversity, and improving the academic profile of the student body.
- 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.
- International students seeking education in the US continues to grow and is expected to hit 8 million by 2025 lead by China and India. Technological maturity will allow universities to expand their reach and engagement and allow those who have been historically marginalized to participate.
- Investment in Cybersecurity is a top IT priority to many universities because they remain highly vulnerable to cyberattacks due to countless access points across expansive online networks and embedded cultures of openness. Universities with medical centers and substantial research profiles are the most vulnerable.

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, 2019 and 2018
(In Thousands)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 110,451	\$ 80,839
Short-term investments	6,517	-
Loans, accounts and contributions receivable, net	77,942	77,554
Due from affiliate	25,198	13,560
Inventories	3,932	3,313
Investments held with University of Louisville Foundation, Inc.	11,236	13,884
Other assets	7,059	10,389
Total current assets	<u>242,335</u>	<u>199,539</u>
Noncurrent Assets		
Restricted cash and cash equivalents	2,152	35,816
Deposit with bond trustee and escrow agent	9,761	8,210
Loans, accounts and contributions receivable, net	61,098	60,016
Due from affiliate	9,244	24,293
Other long-term investments	17,271	1,360
Other long-term assets	-	247
Capital assets, net	976,355	971,395
Total noncurrent assets	<u>1,075,881</u>	<u>1,101,337</u>
Total assets	<u>1,318,216</u>	<u>1,300,876</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>8,080</u>	<u>9,680</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	103,575	102,399
Unearned compensation and wages payable	2,920	320
Advances	53,564	53,854
Bonds and notes payable	23,311	22,162
Total current liabilities	<u>183,370</u>	<u>178,735</u>
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	5,250	2,201
Deposits	1,646	1,649
Advances	4,899	3,835
Amounts due to federal government for student loan programs	15,944	15,915
Other long-term liabilities	64,758	88,845
Bonds and notes payable	235,952	249,096
Total noncurrent liabilities	<u>329,765</u>	<u>362,857</u>
Total liabilities	<u>513,135</u>	<u>541,592</u>
DEFERRED INFLOWS OF RESOURCES	<u>82,129</u>	<u>61,275</u>
NET POSITION		
Net investment in capital assets	716,400	701,024
Restricted for:		
Nonexpendable		
Scholarships and fellowships	4,710	1,633
Expendable		
Scholarships and fellowships	-	2,914
Research	19,535	20,411
Instruction	6,442	6,396
Public service	12,694	12,554
Academic support	642	626
Institutional support	11,850	6,522
Loans	2,819	2,814
Capital projects	4,693	687
Debt service	20,835	26,698
Unrestricted	(69,588)	(74,590)
Total net position	<u>\$ 731,032</u>	<u>\$ 707,689</u>

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	June 30	
	2019	2018
Assets		
Cash	\$ 9,785	\$ 6,261
Accounts and notes receivable, net	4,870	5,626
Loans receivable, net	15,720	15,720
Contributions receivable, net	15,818	21,320
Due from the University of Louisville Real Estate Foundation, Inc.	17,410	21,755
Investments	695,617	685,322
Funds held in trust by others	58,675	58,770
Restricted investments	-	5,242
Prepaid expenses and other assets	6,298	6,879
Capital assets, net	54,114	89,363
Total assets	<u>\$ 878,307</u>	<u>\$ 916,258</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 1,049	\$ 1,730
Unallocated gifts	99	1,608
Funds held in trust for others	19,555	21,973
Other liabilities	10,667	12,307
Bonds and notes payable	54,635	81,301
Due to the University of Louisville	1,383	6,542
Total liabilities	<u>87,388</u>	<u>125,461</u>
Net assets:		
Without donor restrictions	38,864	30,583
With donor restrictions	752,055	760,214
Total net assets	<u>790,919</u>	<u>790,797</u>
Total liabilities and net assets	<u>\$ 878,307</u>	<u>\$ 916,258</u>

See notes to consolidated financial statements.

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30	
	2019	2018
Assets		
Cash	\$ 3,542	\$ 2,295
Accounts receivable, net	781	185
Prepays and other assets	775	205
Investments	235	544
Investments in joint ventures	5,973	6,721
Tax incremental financing intangibles, net	99,907	104,271
In-place lease intangibles, net	155	497
Above-market lease intangibles, net	2,398	2,523
Capital assets, net	152,005	100,100
Total assets	<u>\$ 265,771</u>	<u>\$ 217,341</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 692	\$ 527
Unearned ground lease revenue	—	4,193
Unearned grant revenue	312	680
Other liabilities	1,064	307
Below-market lease intangibles, net	42	705
Debt	62,024	25,277
Due to the University of Louisville	4,261	6,275
Due to the University of Louisville Foundation, Inc.	20,907	26,223
Total liabilities	<u>89,302</u>	<u>64,187</u>
Net assets:		
Without donor restrictions	176,469	152,266
Non-controlling interest	—	888
Total net assets	<u>176,469</u>	<u>153,154</u>
Total liabilities and net assets	<u>\$ 265,771</u>	<u>\$ 217,341</u>

See notes to consolidated financial statements.

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2019 and 2018
(In Thousands)

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,242	\$ 6,466
Patient accounts receivable, less allowance for uncollectible accounts of \$11,343 and \$16,637 for 2019 and 2018, respectively	17,675	16,486
Receivables, related parties	4,898	5,765
Note receivable, related party	30,500	-
Other receivables	563	417
Prepaid expenses and other current assets	2,354	2,088
Total current assets	<u>65,232</u>	<u>31,222</u>
Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG)	21,542	20,502
Property and equipment:		
Furniture, fixtures, and equipment	3,202	3,179
Leasehold improvements	1,460	1,451
Information technology	18,341	18,373
	<u>23,003</u>	<u>23,003</u>
Accumulated depreciation and amortization	<u>(15,724)</u>	<u>(12,651)</u>
Total property and equipment, net	<u>7,279</u>	<u>10,352</u>
Total assets	<u><u>\$ 94,053</u></u>	<u><u>\$ 62,076</u></u>
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable	\$ 10,039	\$ 5,885
Accrued payroll and related expenses	6,241	5,543
Payable to University of Louisville	15,000	-
Line of credit	4,000	2,000
Current portion accrual of University distributions (Dean's Tax)	1,949	1,210
Current portion of long-term debt	12,426	7,544
Total current liabilities	<u>49,655</u>	<u>22,182</u>
Long-term liabilities:		
Long-term accrual of University distributions (Dean's Tax)	4,000	4,813
Long-term debt, net of current portion	7,075	19,531
Total long-term liabilities	<u>11,075</u>	<u>24,344</u>
Total liabilities	<u>60,730</u>	<u>46,526</u>
Net assets (deficit):		
Unrestricted:		
Net assets	29,945	10,123
Invested in property and equipment, net of related debt	3,378	5,427
Total net assets (deficit)	<u>33,323</u>	<u>15,550</u>
Total liabilities and net assets (deficit)	<u><u>\$ 94,053</u></u>	<u><u>\$ 62,076</u></u>

See notes to the financial statements

University Medical Center, Inc.
Statements of Financial Position
June 30, 2019 and 2018
(In Thousands)

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 67,902	\$ 80,717
Net patient accounts receivable	87,158	68,907
Other accounts receivable	5,535	6,039
Current portion note receivable-related party	7,500	2,300
Related party receivable	2,301	1,975
Prepaid expenses and other	5,490	2,767
Inventory	14,462	12,958
Total current assets	190,348	175,663
Investments	144,153	138,202
Property and equipment, net	127,655	117,811
Other assets		
Investments in joint ventures	47,142	12,116
Long term portion of note receivable-related party	-	7,100
Other assets	2,543	2,528
Total other assets	49,685	21,744
Total noncurrent assets	321,493	277,757
Total assets	<u>\$ 511,841</u>	<u>\$ 453,420</u>

LIABILITIES AND NET POSITION

Current liabilities		
Accounts payable and accrued expenses	\$ 42,506	\$ 48,125
Related party payable	3,880	2,557
Accrued compensation and related accruals	22,486	16,813
Note payable to related party	30,500	0
Current portion of long-term debt	16,946	6,160
Estimated third-party payor settlements	150,469	140,017
Total current liabilities	266,787	213,672
Long-term debt - net of current portion	15,758	33,680
Other liabilities		
Self-insurance reserve and claims	554	555
Other liabilities	302	302
Total other liabilities	856	857
Total liabilities	283,401	248,209
Net Position		
Net invested in capital assets	94,951	77,971
Unrestricted	133,489	127,240
Total net position	228,440	205,211
Total liabilities and net position	<u>\$ 511,841</u>	<u>\$ 453,420</u>

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, 2019 and 2018
(In Thousands)

	2019	2018
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of \$96,059 in 2019 and \$92,737 in 2018	\$ 223,173	\$ 217,395
Clinical services and practice plan	287,393	262,096
Federal grants and contracts	79,191	72,308
State and local grants and contracts	11,368	8,191
Nongovernmental grants and contracts	15,281	18,216
Sales and services of educational departments	5,727	7,682
Facilities and administrative cost recoveries	28,248	27,035
Auxiliary enterprises, net of discount of \$2,177 in 2019 and \$2,220 in 2018	16,242	15,627
Intercollegiate athletics	86,826	76,491
Other operating revenues	15,830	12,884
Total operating revenues	<u>769,279</u>	<u>717,925</u>
OPERATING EXPENSES		
Instruction	285,802	286,339
Research	133,464	137,046
Public service	122,032	133,381
Academic support	153,787	140,076
Student services	28,805	28,150
Institutional support	75,566	71,478
Operation and maintenance of plant	48,983	45,273
Scholarships and fellowships	32,527	32,216
Auxiliary enterprises	8,411	7,377
Intercollegiate athletics	123,983	103,155
Depreciation and amortization	52,213	48,780
Total operating expenses	<u>1,065,573</u>	<u>1,033,271</u>
Operating loss	<u>(296,294)</u>	<u>(315,346)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	128,930	132,959
Gifts	27,554	30,574
Nonexchange grants and contracts	46,179	45,881
Investment income	3,714	2,620
Realized and unrealized gain on investments	477	136
Interest on capital asset-related debt	(10,457)	(10,789)
Other nonoperating revenues	3,769	5,072
Net nonoperating revenues	<u>200,166</u>	<u>206,453</u>
Loss before other revenues, expenses, gains and losses	<u>(96,128)</u>	<u>(108,893)</u>
Capital appropriations	22,131	43,975
Capital gifts	36,016	393
Contributions from University of Louisville Foundation, Inc.	61,324	67,608
Total other revenues	<u>119,471</u>	<u>111,976</u>
Increase in net position	<u>23,343</u>	<u>3,083</u>
NET POSITION		
Net position - beginning of year	707,689	748,214
Cumulative effect of change in accounting principle	-	(43,608)
Net position - end of year	<u>\$ 731,032</u>	<u>\$ 707,689</u>

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets
(In Thousands)

Years Ended June 30, 2019 and 2018

	Without Donor Restrictions		With Donor Restrictions		Totals	
	2019	2018	2019	2018	2019	2018
Revenues, gains, and other support:						
Gifts	\$ 25,014	\$ 22,651	\$ 13,912	\$ 11,569	\$ 38,926	\$ 34,220
Net investment return	7,791	19,056	13,034	37,162	20,825	56,218
Changes in funds held in trust by others	—	—	1,907	3,479	1,907	3,479
Net rental revenues	6,829	13,146	—	—	6,829	13,146
Contributions from the University of Louisville Real Estate Foundation, Inc.	11,874	12	—	—	11,874	12
Other revenues	3,516	3,349	—	—	3,516	3,349
Net assets released from restrictions	33,825	26,556	(33,825)	(26,556)	—	—
Total revenues, gains, and other support	88,849	84,770	(4,972)	25,654	83,877	110,424
Expenses:						
Contributions and allocations to University of Louisville departments	64,058	67,807	—	—	64,058	67,807
Salaries	2,892	3,770	—	—	2,892	3,770
Utilities	975	2,031	—	—	975	2,031
General and administrative	2,592	2,306	—	—	2,592	2,306
Professional services	2,003	2,295	—	—	2,003	2,295
Repairs and maintenance	1,946	2,505	—	—	1,946	2,505
Depreciation and amortization	3,088	4,744	—	—	3,088	4,744
Interest expense	2,267	3,383	—	—	2,267	3,383
Other expenses	747	1,049	—	—	747	1,049
Total expenses	80,568	89,890	—	—	80,568	89,890
Loss on contributions receivable, net	—	—	3,227	2,422	3,227	2,422
Actuarial loss (gain) on annuity and unitrust obligations	—	—	(40)	449	(40)	449
Total expenses and losses	80,568	89,890	3,187	2,871	83,755	92,761
Reclassifications to implement ASU 2016-14	—	26,820	—	(26,820)	—	—
Changes in net assets	8,281	21,700	(8,159)	(4,037)	122	17,663
Net assets, beginning of year	30,583	8,883	760,214	764,251	790,797	773,134
Net assets, end of year	\$ 38,864	\$ 30,583	\$ 752,055	\$ 760,214	\$ 790,919	\$ 790,797

See notes to consolidated 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	
	2019	2018
Revenues, gains, and other support		
Rental revenue	\$ 10,529	\$ 4,410
Contributions from University of Louisville Foundation	18,853	—
Net investment return	73	78
Tax incremental financing revenues	9,639	7,970
Other revenue	3,264	1,284
Total revenues, gains, and other support	42,358	13,742
Expenses:		
Contribution expense	968	2,150
Salaries	819	169
General and administrative	1,153	708
Professional services	1,229	1,380
Utilities	1,224	681
Repairs and maintenance	1,259	692
Depreciation and amortization	8,457	6,530
Interest expense	2,512	1,357
Property taxes	132	68
Total expenses	17,753	13,735
Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc.	24,605	7
Change from non-controlling interest	(1,290)	(107)
Total changes in net assets	23,315	(100)
Net assets, beginning of year	153,154	153,254
Net assets, end of year	\$ 176,469	\$ 153,154

See notes to consolidated financial statements.

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.
Statements of Activities
Years Ended June 30, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 142,086	\$ 163,889
Provision for bad debts	<u>(27,378)</u>	<u>(51,588)</u>
Net patient service revenue less provision for bad debts	114,708	112,301
University of Louisville	34,116	36,485
University Physicians Associates, Inc. (UPA)	517	398
Pediatric Medical Office Building, Inc. (PMOB)	366	151
Academic programmatic support - related parties	15,255	18,041
Academic programmatic support	2,868	3,003
Meaningful use income	332	693
Medical directorship	950	878
HTC 340b revenue	16,667	391
Other revenue	1,798	5,203
Gain on investment in KMRRRG	1,040	1,729
Gain on sale of Passport membership interest	35,500	-
Interest income	<u>173</u>	<u>373</u>
Total unrestricted revenues, gains, and other support	224,290	179,646
Expenses:		
Program services	179,407	145,347
Management and general	<u>27,110</u>	<u>26,644</u>
Total expenses	206,517	171,991
Change in net assets	17,773	7,655
Net assets, beginning of year	15,550	7,895
Net assets, end of year	<u>\$ 33,323</u>	<u>\$ 15,550</u>

See notes to the financial statements

University Medical Center, Inc.
Statement of Operations and Changes in Net Position
Years Ended June 30, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 560,499	\$ 450,676
Other operating revenue	<u>46,802</u>	<u>36,854</u>
Total operating revenues	607,301	487,530
Operating expenses		
Salaries and wages	175,483	158,602
Employee benefits	40,564	33,751
Operating supplies	166,578	145,855
Professional services	64,968	62,392
Consultant fees	1,352	7,812
Purchased services	63,931	84,930
Insurance	2,983	3,070
Depreciation and amortization	17,065	18,304
Rental and maintenance	24,294	21,175
Utilities	6,609	6,665
Provider tax	7,248	7,264
Other operating expense	<u>4,365</u>	<u>4,356</u>
Total operating expenses	<u>575,440</u>	<u>554,176</u>
Operating income (loss)	31,861	(66,646)
Other income (expenses)		
Interest expense	(617)	(417)
Investment income	7,970	1,506
Other expense	<u>(15,985)</u>	<u>(7,289)</u>
Total other income (expenses)	<u>(8,632)</u>	<u>(6,200)</u>
Change in net position	23,229	(72,846)
Net position - beginning of year	205,211	278,057
Net position - end of year	<u>\$ 228,440</u>	<u>\$ 205,211</u>

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, 2019 and 2018
(In Thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 221,810	\$ 218,832
Clinical services and practice plan	293,419	267,772
Grants and contracts	112,491	100,311
Sales and services of educational departments	5,522	7,600
Payments to suppliers	(227,768)	(237,353)
Payments for utilities	(21,624)	(19,571)
Payments to employees	(575,310)	(563,606)
Payments for benefits	(127,956)	(137,460)
Payments for scholarships and fellowships	(35,662)	(34,428)
Loans issued to students and employees	1,122	(383)
Auxiliary enterprises	13,840	30,071
Facilities and administrative cost recoveries	28,248	27,035
Intercollegiate athletics	87,995	78,379
Other receipts	15,034	14,787
Net cash used by operating activities	<u>(208,839)</u>	<u>(248,014)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	128,939	132,959
Gifts	18,101	35,238
Nonexchange grants and contracts	46,179	46,349
Contributions from related entities	74,613	89,535
Due to University of Louisville	(14,145)	-
Other noncapital financing activities	2,823	1,836
Net cash provided by noncapital financing activities	<u>256,510</u>	<u>305,917</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	23,396	43,197
Capital gifts received	22,840	380
Purchases of capital assets	(60,769)	(109,694)
Proceeds from issuance of bonds and notes payables	8,808	16,826
Principal paid on bonds and notes payable	(15,678)	(24,208)
Interest paid on bonds and notes payable	(10,676)	(11,403)
Deposits with bond trustee and escrow agent	(1,551)	(1,462)
Net cash used by capital and related financing activities	<u>(33,630)</u>	<u>(86,364)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	10,095	2,960
Purchase of investments	(32,129)	200
Interest on investments	3,941	2,580
Net cash provided/(used) by investing activities	<u>(18,093)</u>	<u>5,740</u>
Net decrease in cash and cash equivalents	(4,052)	(22,721)
Cash and cash equivalents - beginning of year	116,655	139,376
Cash and cash equivalents - end of year	<u>\$ 112,603</u>	<u>\$ 116,655</u>

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, 2019 and 2018
(In Thousands)

	2019	2018
RECONCILIATION OF NET OPERATING LOSS TO NET CASH		
USED BY OPERATING ACTIVITIES		
Operating loss	\$ (296,294)	\$ (315,346)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	52,213	48,780
Loss on equipment disposals	516	130
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	3,621	7,514
Investments held with University of Louisville Foundation, Inc.	2,505	10,823
Inventories	(17)	149
Other assets	3,078	324
Other long-term assets	63	250
Accounts payable and accrued liabilities	23,420	(6,303)
Advances	420	2,775
Deposits	(11)	198
Due from Affiliates	-	(1)
Unearned compensation and wages payable	5,650	(3,853)
Other long-term liabilities	(24,032)	(1,665)
Deferred outflows of resources	558	(3,223)
Deferred inflows of resources	19,471	11,434
Net cash used by operating activities	<u>\$ (208,839)</u>	<u>\$ (248,014)</u>
Non cash transactions:		
Capital lease additions	<u>\$ 334</u>	<u>\$ 387</u>
Capital asset additions in accounts payable	<u>\$ 2,519</u>	<u>\$ 27,262</u>
Capital asset additions in other assets	<u>\$ -</u>	<u>\$ 252</u>
Gifts of capital assets	<u>\$ 21,077</u>	<u>\$ 979</u>

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky

Notes to Financial Statements

June 30, 2019 and 2018

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 \$9.8 million and \$8.2 million as of June 30, 2019 and June 30, 2018, 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 \$0.4 million and \$0.6 million at June 30, 2019 and 2018, 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*.

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 \$8.1 million and \$9.7 million for the years ended June 30, 2019 and 2018, respectively, consist primarily of loss on bond refinancing of \$5.4 million and amounts paid for other postemployment benefits of \$2.7 million as of June 30, 2019 and loss on bond refinancing of \$6.5 million and amounts paid for other postemployment benefits of \$3.2 million as of June 30, 2018. 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 \$82.1 million and \$61.3 million for the years ended June 30, 2019 and 2018, respectively, consisted of \$49.2 million and \$53.2 million of service concession arrangements, respectively, a \$2.6 million of fair value of derivatives and \$30.2 million of postemployment benefit experience and assumption changes for the year ended June 30, 2019. 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, 2019, include \$49.2 million of deferred inflows of resources, \$25.6 million of long-term receivables and \$11.7 million of net capital assets recorded. Under the agreements, the University maintains ownership of the facilities, while the third 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, revenue 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, 2019, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The statement requires identification and assessment of cost of legally enforceable activities associated with the retirement of tangible capital assets. The university identified potential tangible assets that would qualify and assessed the liability using quoted prices and industry standards. The estimated cost was deemed to have no material impact to the university.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The updated disclosures did not have a material impact to the university.

As of June 30, 2019, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

GASB Statement No. 84, *Fiduciary Activities*. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. This statement will improve financial reporting by providing users of the financial statements with essential information related to the presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

GASB Statement No. 87, *Leases*. Requires recognition of certain lease assets and liabilities for leases that were previously classified as operating, and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

During the year ended June 30, 2018 the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard resulted in restating beginning net position as of July 1, 2017.

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, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deposits	\$ 112,603	\$ 116,655
Investments		
U.S. Treasury obligations	1,011	43
U.S. Agencies obligations	20,095	-
Other government obligations	504	-
Repurchase agreements	9,734	8,167
Investments held with the Foundation	11,236	13,884
Certificates of deposit	1,024	-
Annuities	1,155	1,358
Other long-term investments	-	2
Total	<u>\$ 157,362</u>	<u>\$ 140,109</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 110,451	\$ 80,839
Short-term investments	6,517	-
Restricted cash and cash equivalents	2,152	35,816
Deposit with bond trustee-noncurrent	9,761	8,210
Investments held with the Foundation	11,236	13,884
Other long-term investments	17,271	1,360
Total	<u>\$ 157,388</u>	<u>\$ 140,109</u>

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, 2019 and 2018, the University had deposits subject to custodial credit risk as follows on the following page (in thousands):

June 30, 2019	State Deposits	Overnight Investments	Total
Collateralized with securities held by pledging financial institution	\$ -	\$ 71,857	\$ 71,857
Collateralized with securities held by the Commonwealth in the Commonwealth's name	30,818	-	30,818
Total	<u>\$ 30,818</u>	<u>\$ 71,857</u>	<u>\$ 102,675</u>

June 30, 2018	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized	\$ -	\$ 74,890	\$ 74,890
Collateralized with securities held by pledging financial institution	-	25,175	25,175
Collateralized with securities held by the Commonwealth in the Commonwealth's name	13,815	-	13,815
Total	<u>\$ 13,815</u>	<u>\$ 100,065</u>	<u>\$ 113,880</u>

c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The University's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, banker's acceptances, and variable rate demand notes with a maturity not greater than three years. The University has entered into a repurchase agreement for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve in exchange for payment from the available reserve. The final maturity under this agreement is March 1, 2027.

As of June 30, 2019 and 2018, the University had investments subject to interest rate risk as reflected in schedules presented as follows and on the following page (in thousands):

June 30, 2019	Total	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 1,037	\$ 26	\$ 1,011	\$ -	\$ -
U.S. agencies obligations	20,095	6,518	13,577	-	-
Other government obligations	504	-	504	-	-
Repurchase agreements	9,734	-	-	9,734	-
Certificates of deposit	1,024	-	1,024	-	-
Total	<u>\$ 32,394</u>	<u>\$ 6,544</u>	<u>\$ 16,116</u>	<u>\$ 9,734</u>	<u>\$ -</u>

June 30, 2018	Total	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 43	\$ 43	\$ -	\$ -	\$ -
Repurchase agreement	8,167	-	-	-	8,167
Total	<u>\$ 8,210</u>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,167</u>

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, 2019 and 2018, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

June 30, 2019	Aaa	Not Rated	Total
Annuities	\$ 1,155	\$ -	\$ 1,155
Investments held with the Foundation	-	11,236	11,236
Total	<u>\$ 1,155</u>	<u>\$ 11,236</u>	<u>\$ 12,391</u>

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

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, 2019 and 2018, 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, 2019 and 2018 is as follows:

	2019	2018
Investment in partnerships	53%	53%
Marketable alternatives	21%	22%
Preferred and common stock	4%	4%
Mutual funds	11%	13%
Fixed income	11%	8%
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, 2019 and 2018.

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, 2019 and 2018 (in thousands):

	Balance as of 6/30/2019	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	\$ 1,011	\$ 1,011	\$ -	\$ -	\$ -
US Agency obligations	20,095	20,095	-	-	-
Other governmental obligations	504	-	504	-	-
Certificate of deposit	1,024	1,024	-	-	-
University of Louisville Foundation, Inc. investment fund	11,236	-	-	-	11,236
Investment derivative instruments					
Interest rate swap	(4)	-	(4)	-	-
Total investments measured at fair value	\$ 33,866	\$ 22,130	\$ 500	\$ -	\$ 11,236

	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	<u>\$ 14,111</u>	<u>\$ 43</u>	<u>\$ 184</u>	<u>\$ -</u>	<u>\$ 13,884</u>

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 6/30/19	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	\$ 11,236	Various from any valuation day to quarterly	Various from 5 to 90 days
	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

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, 2019 and 2018 are as follows on the following page (in thousands):

2019			
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	\$ 42,586	\$ (16,961)	\$ 25,625
Patient care	56,222	(36,621)	19,601
Contributions receivable	34,874	(4,748)	30,126
Sponsored agreements	30,151	(1,763)	28,388
Trade receivables	6,833	-	6,833
Other	29,661	(4)	29,657
Total	<u>\$ 200,327</u>	<u>\$ (60,097)</u>	140,230
Less discount			(1,189)
Current portion			<u>77,942</u>
Noncurrent portion			<u>\$ 61,098</u>

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	26,493	(1,763)	24,730
Trade receivables	8,175	-	8,175
Other	31,965	(418)	31,547
Total	<u>\$ 207,478</u>	<u>\$ (68,981)</u>	138,497
Less discount			(928)
Current portion			<u>77,554</u>
Noncurrent portion			<u>\$ 60,016</u>

Contributions receivable consist primarily of charitable gifts totaling \$34.9 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, 2019.

Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2019 and June 30, 2018.

Contributions receivable as of June 30, 2019 and 2018 are due to be received as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Less than one year	\$ 11,060	\$ 11,016
One to three years	9,636	12,445
Greater than three years	14,178	9,923
Subtotal	<u>34,874</u>	<u>33,384</u>
Less discount	(1,189)	(928)
Less allowance	<u>(4,748)</u>	<u>(10,572)</u>
Net contributions receivable	<u>\$ 28,937</u>	<u>\$ 21,884</u>

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 \$1.4 million and \$6.9 million to the University as of June 30, 2019 and 2018, respectively, to fund spending of these donations and earnings and is recorded in current Due from Affiliate. The University manages Foundation owned dorms, including collection of rents, payment of related expenses and managing the properties. As of June 30, 2019, the University owed the Foundation \$1.1 million for rents collected and the Foundation owed the University \$2.6 million for reimbursement of expenses.

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 \$3.6 million of the loan during the years ended June 30, 2019 and June 30, 2018, respectively. The outstanding note balance is \$2.7 million with \$1.6 million in current due from affiliates and \$1.1 million in noncurrent due from affiliates as of June 30, 2019.

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 \$0.8 million and \$0.2 million of the outstanding balance during the years ended June 30, 2019 and 2018, respectively. The outstanding note balance is \$4.8 million as of June 2019, with \$0.8 thousand in current due from affiliate and the remaining \$4.0 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 \$10.0 million and \$5.0 million of the outstanding balance during the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019, the balance of the receivable is \$9.1 million with \$5.0 million recorded in current due from affiliates and \$4.1 million in noncurrent due from affiliates.

6. **Capital Assets, Net**

Capital assets as of June 30, 2019 and 2018 are as follows and on the following page (in thousands):

	2019				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
Cost - Nondepreciable					
Land	\$ 44,677	\$ -	\$ -	\$ -	\$ 44,677
Rare books	47,910	48	-	-	47,958
Construction in progress	161,226	2,997	(192)	(163,820)	211
Subtotal	253,813	3,045	(192)	(163,820)	92,846
Cost - Depreciable					
Buildings	1,168,724	40,345	-	162,850	1,371,919
Infrastructure	53,875	32	-	-	53,907
Land improvements	19,849	-	-	970	20,819
Equipment	207,297	13,002	(1,822)	-	218,477
Leasehold improvements	2,117	-	-	-	2,117
Library materials	173,859	1,267	-	-	175,126
Subtotal	1,625,721	54,646	(1,822)	163,820	1,842,365
Total capital assets-cost	1,879,534	57,691	(2,014)	-	1,935,211
Accumulated depreciation					
Buildings	556,139	38,203	-	-	594,342
Infrastructure	4,794	898	-	-	5,692
Land improvements	4,689	589	-	-	5,278
Equipment	183,449	8,660	(1,496)	-	190,613
Leasehold improvements	1,627	64	-	-	1,691
Library materials	157,441	3,799	-	-	161,240
Total accumulated depr.	908,139	52,213	(1,496)	-	958,856
Capital assets, net	\$ 971,395	\$ 5,478	\$ (518)	\$ -	\$ 976,355

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

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2019 and 2018 (in thousands):

	2019	2018
Salaries and benefits	\$ 39,524	\$ 40,351
Payroll taxes	18,194	15,868
Construction	1,927	16,899
Accrued interest	3,415	3,635
Other	40,516	25,646
Total	\$ 103,575	\$ 102,399

8. Notes 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, 2019 and 2018. The outstanding balance was approximately \$1.0 million for each of the years ended June 30, 2019 and 2018.

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, 2019 and 2018.

9. **Bonds, Notes, and Capital Leases**

Long-term debt, net of discount, of the University consisted of the following at June 30, 2019 and 2018 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2019	2018
General Receipts Bonds:				
Series A of 2008	4.0%	2019	\$ -	\$ 4,055
Series B of 2010	5.5%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	25,265	26,630
Series A of 2012	5.0%	2023	6,090	7,435
Series A of 2016	2.0% to 5.0%	2036	11,855	12,600
Series B of 2016	3.0% to 5.0%	2028	21,560	23,610
Series C of 2016	2.0% to 4.0%	2029	51,300	51,380
Series D of 2016	3.0% to 5.0%	2036	45,295	45,295
Series E of 2016	2.2% to 3.0%	2023	4,355	5,390
Series F of 2016	5.00%	2028	21,767	23,645
Notes payable	2.9%	2022	6,612	9,626
Master lease obligations	3.9%	2028	15,407	7,200
Energy leases	2.6% to 4.8%	2033	13,283	15,204
Capital lease obligations	2.0% to 10.7%	2020	336	601
Total long-term debt			244,067	253,613
Net unamortized premium			15,197	17,645
Long-term debt, net			<u>\$ 259,264</u>	<u>\$ 271,258</u>

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

2019						
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	\$ 220,982	\$ -	\$ (12,554)	\$ 208,428	\$ 13,670	\$ 194,758
Notes payable	9,626	-	(3,014)	6,612	2,957	3,655
Energy leases	15,204	-	(1,921)	13,283	2,007	11,276
Draws on master lease	7,200	8,808	(601)	15,407	2,123	13,284
Capital leases	601	334	(599)	336	254	82
Total	253,613	9,142	(18,689)	244,066	21,011	223,055
Less unamortized net (discount)/premium	17,645	-	(2,448)	15,197	2,300	12,897
Net bonds payable	<u>\$ 271,258</u>	<u>\$ 9,142</u>	<u>\$ (21,137)</u>	<u>\$ 259,263</u>	<u>\$ 23,311</u>	<u>\$ 235,952</u>

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
Draws on master lease	-	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	20,200	-	(2,555)	17,645	2,449	15,196
Net bonds payable	<u>\$ 280,808</u>	<u>\$ 17,213</u>	<u>\$ (26,763)</u>	<u>\$ 271,258</u>	<u>\$ 22,162</u>	<u>\$ 249,096</u>

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
2020	\$ 21,011	\$ 10,296	\$ 31,307
2021	21,382	9,548	30,930
2022	21,397	8,793	30,190
2023	21,631	8,028	29,659
2024	17,174	7,149	24,323
2025 - 2029	92,839	23,961	116,800
2030 - 2034	35,965	7,450	43,415
2035 - 2036	12,667	837	13,504
Total	<u>\$ 244,066</u>	<u>\$ 76,062</u>	<u>\$ 320,128</u>

The University has capitalized leased equipment with a net book value of \$0.4 million and \$0.8 million as of June 30, 2019 and 2018, 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 \$279.7 million, with annual requirements ranging from \$6.7 million in 2036 to \$34.5 million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were \$23.2 million and \$532.5 million, respectively.

As of June 30, 2019 and 2018, investments at fair value totaling approximately \$9.8 million and \$8.1 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 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.

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, 2019 and 2018.

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, 2019 and 2018.

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, 2019. 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 loan 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 \$6.6 million and \$9.6 million as of June 30, 2019 and June 30, 2018, 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 \$8.3 million and \$10.0 million as of June 30, 2019 and 2018, 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 2.6% fixed interest rate and a term ending 2033. The balance of the lease was \$4.9 million and \$5.2 million as of June 30, 2019 and 2018, respectively.

Master Lease

The University has a master lease arrangement with a financial institution that allows for draws up to \$50.0 million. Each draw on the master lease is documented as a separate borrowing on the arrangement. In May 2018, the University drew \$7.2 million on the master lease to finance investments in construction of a network production studio. In May and June 2019, the University entered into five new draws on the master lease for equipment and a renovation project totaling \$8.8 million. The lessor receives an exclusive security interest in any and all equipment acquired. The leases specify 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 all draws was \$15.4 million and \$7.2 million as of June 30, 2019 and 2018, respectively.

Lines of Credit

The University received a line of credit in the form of a revenue anticipation note on June 2, 2018 in the amount of \$50 million with a maturity date of June. No draws were made from the available credit through its expiration. The University renewed the line of credit on July 1, 2019 with a maturity date of June 30, 2020 with substantially the same terms as the original line of credit.

10. Derivative Financial Instruments

a. Summary

At June 30, 2019, the Association has the following derivative instruments outstanding (in thousands):

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>
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%	\$ (4)

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, 2019, the decrease in fair value of the Interest Rate Swap was approximately \$188 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, 2019. 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, 2019, 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, 2019 and 2018 (in thousands):

2019						
	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	2,521	6,548	(899)	8,170	2,920	5,250
Deposits	1,649	142	(145)	1,646	-	1,646
Advances	57,689	11,100	(10,326)	58,463	53,564	4,899
Amounts due federal government for student loan program	15,915	29	-	15,944	-	15,944
Other postemployment benefits	88,843	-	(24,113)	64,730	-	64,730
Other long-term liabilities	2	26	-	28	-	28
Total	<u>\$ 167,935</u>	<u>\$ 17,845</u>	<u>\$ (35,483)</u>	<u>\$ 150,297</u>	<u>\$ 56,484</u>	<u>\$ 93,813</u>

2018						
	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	6,374	433	(4,286)	2,521	320	2,201
Deposits	1,451	259	(61)	1,649	-	1,649
Advances	50,888	17,289	(10,488)	57,689	53,854	3,835
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	<u>\$ 168,987</u>	<u>\$ 18,299</u>	<u>\$ (19,351)</u>	<u>\$ 167,935</u>	<u>\$ 54,174</u>	<u>\$ 113,761</u>

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, 2019.

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 2019 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, 2019 and 2018, respectively, was approximately \$57.6 million and \$62.0 million, including \$5.2 million and \$4.7 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, 2019, June 30, 2018, and June 30, 2017:

Fiscal year ended June 30,	Current Year Claims and Changes in			
	Beginning Balance	Estimates	Claim Payments	Ending Balance
2019	\$ 4,699	\$ 58,062	\$ (57,572)	\$ 5,189
2018	4,277	62,383	(61,961)	4,699
2017	4,731	59,882	(60,336)	4,277

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2019 and 2018 (in thousands):

	<u>2019</u>	<u>2018</u>
Salaries and wages	\$ 564,801	\$ 556,422
Employee benefits	138,153	140,991
Utilities	21,309	20,330
Scholarships and fellowships	35,662	35,437
Depreciation	52,213	48,780
Supplies and other services	253,435	231,311
Total	<u>\$ 1,065,573</u>	<u>\$ 1,033,271</u>

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, 2019 and 2018 is presented as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Total University payroll	\$ 578,682	\$ 567,114
Total payroll covered by the plan	\$ 543,379	\$ 547,026
Employee contributions	\$ 31,035	\$ 30,429
University contributions	\$ 39,906	\$ 40,605

As of June 30, 2019 and 2018, the University had no outstanding liability related to the Retirement Plan and \$5 thousand and \$51 thousand of forfeiture funds available to offset future employer contributions.

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, 2019 and June 30, 2018. 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, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Actuarial present value of nonvested accumulated plan benefits	\$ 828	\$ 1,066
Net assets available for benefits	\$ 1,204	\$ 1,325
Net pension surplus	\$ (376)	\$ (259)
Funded ratio	145%	124%

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, 2019 and 2018, 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, 2019, the following employees were covered by the benefit terms.

Inactive plan members	1,513
Active plan members	<u>5,482</u>
Total	<u>6,995</u>

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, 2019 and 2018, the University contributed approximately \$2.8 million and \$3.3 million to the Plan, approximately 68% and 75% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$1.3 million and \$1.1 million, approximately 32% and 25% of total premiums for the years ended June 30, 2019 and 2018, respectively, through their required monthly contributions according to the schedules below:

2019				
	PPO	EPO	PCA High	PCA Low
Employee	\$ 342	\$ 362	\$ 288	\$ 254
Employee and Spouse	\$ 830	\$ 870	\$ 710	\$ 570
2018				
	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, 2019 and 2018, the University contributed \$1.8 million and \$1.9 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, 2018. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.87%
Salary Increases	5.00%, average
Investment rate of return	NA
	8.1% for 2018, decreasing 0.4%-0.5%
	per year to an ultimate rate of
Healthcare cost trend rates	4.5% for 2027 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 3.58% as of the Measurement Date, 3.87% 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 6/30/2018	\$ 88,843
Changes for the year:	
Service cost	4,630
Interest	3,296
Differences between expected and actual experience	(1,718)
Changes of assumptions	(27,504)
Contributions - employer	-
Net investment income	-
Benefit payments	(2,817)
Administrative expense	-
Net Changes	(24,113)
Balances at 6/30/2019	\$ 64,730

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 (2.87)%	Discount Rate (3.87)%	1% Increase (4.87)%
Net OPEB liability	\$ 70,923	\$ 64,730	\$ 59,231

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 (6.7% for 2018, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (8.7% for 2018, 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 (6.7)%	Healthcare Cost Trend Rates (7.7)%	1% Increase (8.7)%
Net OPEB liability	\$ 62,057	\$ 64,730	\$ 67,882

For the year ended June 30, 2019 the University recognized OPEB expense of \$3,722. At June 30, 2019, 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	\$ -	\$ (3,525)
Changes of assumptions	-	(28,649)
Contributions made in fiscal year ending 6/30/2019 after the measurement date of 6/30/2018	2,836	-
Total	\$ 2,836	\$ (32,174)

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:

<u>Year ended June 30:</u>		
2020	\$	(4,204)
2021		(4,204)
2022		(4,204)
2023		(4,204)
2024		(4,204)
Thereafter		(11,152)

d. Funded Status and Funding Progress

As of June 30, 2018, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was \$64.7 million and \$88.8 million and there were no assets, resulting in an unfunded net OPEB liability of \$64.7 million and \$88.8 million as of June 30, 2019 and 2018, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$450.3 million and \$445.4 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 14% and 20%, for the years ended June 30, 2019 and 2018, 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, 2018, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 7.7% 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, 2019 and 2018 were due to updates made on expected future health claims, 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, and changes in the assumed per capita claims cost.

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 the operation of the University of Louisville Hospital would transition to UMC effective July 1, 2017. As of July 1, 2018, the 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, \$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. The University received \$61.3 million and \$62.7 million in clinical revenues from UMC in fulfillment of the annual funding arrangements for the fiscal years ended June 30, 2019 and 2018, respectively. 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, 2019.

The accompanying statements of net position include approximately \$2.3 million and \$2.7 million in accounts receivable representing amounts due from the AAA and Lease agreements for the years ended June 30, 2019 and 2018, respectively.

b. Norton Healthcare

On December 17, 2015, Norton Healthcare, Inc., (Norton), the University and Commonwealth agreed to 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, 2019 and 2018 was \$41.2 million and \$39.4 million, respectively.

On June 20, 2019, the University approved a non-binding letter of intent with ULP and Norton Healthcare (Norton) to transition the management of the University pediatrics' clinical activities to Norton. The agreement is expected to be finalized in early 2020 and will develop closer alignment of pediatric resources and services for the benefit of children's health.

In connection with the transition of the pediatric clinical enterprise, Norton agreed to pay the University up to \$15 million to cover incremental costs it will incur up to closing of the transaction to maintain operations at an agreed upon level. Norton paid \$10 million to the University to cover transition costs through June 30, 2019 which was recorded as clinical revenue by the University in its 2019 financial statements.

c. 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.

On June 28, 2019, the University and Jewish Heritage Fund for Excellence, Inc. as sole members of the Cardiovascular and Innovation Institute (CII) agreed to its dissolution effective June 30, 2019. The Jewish Heritage Fund for Excellence agreed to gift to the University any improvements in the CII at the time of the dissolution. The University recorded a gift in kind of \$16.6 million in 2019 representing the appraised value of Jewish Heritage Fund for Excellence's improvements. Prior to the dissolution the University carried \$15.5 million as building and improvements for its contribution to CII.

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's lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building was terminated in the fiscal year ended June 30, 2019. Total lease expense for the years ended June 30, 2019 and 2018 amounted to approximately \$42 thousand and \$61 thousand, respectively.

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, 2019 and 2018 amounted to approximately \$169 thousand and \$166 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. The lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total lease expense during the years ended June 30, 2019 and 2018 amounted to approximately \$6.9 million and \$7.3 million, respectively.

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, 2019 and 2018 amounted to approximately \$1.6 million and \$1.3 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 10 years beginning July 31, 2018. Lease expense is recognized evenly over the life of the lease at \$17 thousand annually.

f. 1904 S. Floyd Street

In September 2018 the Association executed an Agreement with University of Louisville Foundation, Inc. for a building of approximately 19,500 square feet at 1904 S. Floyd Street, with an initial term of ten years with annual payments of \$83 thousand for the first five years and \$93 thousand for the following five years. There are two five-year extensions available at approximately \$102 thousand and \$112 thousand annually.

g. 1670 S. Floyd Street

In May 2019 the Association executed an Agreement with University of Louisville Real Estate Foundation, Inc. for a building of approximately 21,018 square feet at 1670 S. Floyd Street for office and warehouse use, with an initial term of five years with annual payments of \$113 thousand per year begin on June 1, 2019 for the term of the agreement. There are two five-year options at approximately \$63 thousand and \$66 thousand annually.

h. 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:

<u>For the year ending June 30,</u>	<u>Lease Payment Due</u>
2020	\$ 6,275
2021	4,228
2022	4,080
2023	3,363
2024	3,343
2025-2029	13,992
2030-2034	12,241
2035-2039	12,241
2040-2044	12,241
2045-2049	12,241
2050-2054	12,241
2055-2059	141
2060-2064	141
2065-2069	111
Future minimum lease payments	<u><u>\$ 96,879</u></u>

18. Commitments and Contingencies

a. Commitments

At June 30, 2019, the University had approximately \$11.4 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. An NCAA investigation related to information from the federal investigation is ongoing, although no NCAA allegations have been made directly against the University at this time. The outcome of the NCAA investigation, and any potential future 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. Subsequent Events

Purchase of Hospital

On August 14, 2019, the University announced an agreement for the purchase of KentuckyOne Health (KOH) assets from its parent company CommonSpirit Health (CSH). The purchase price for the assets is \$10 million plus or minus a working capital adjustment and in return, CSH will forgive UMC's debt of \$19.4 million. CSH will also provide UofL an estimated \$76.4 million of net working capital to provide initial capital needed to transition and turn around the operations of the KOH. The University's purchase of KOH is to be assigned to UMC.

The acquisition is being funded through a combination of private foundation support of \$50 million, a Commonwealth of Kentucky Economic Development Loan of \$50 million and target working capital as a requirement of the acquisition of \$76.4 million. The agreement is expected to close on November 1, 2019.

Sale of Passport

On May 10, 2019 Evolent Health Inc. (Evolent) and ULP, Norton Healthcare, Inc., UMC, Jewish Heritage Fund for Excellence, Inc. and Louisville Primary Care Association reached an agreement whereby Evolent would buy a 70% stake in Passport Health Plan for \$70 million. The transaction is expected to close in early fiscal 2020.

Term Note

In July 2019, the Association entered into a \$1.7 million note with a national banking association. The proceeds will be used to finance the renovation of the seats at the baseball and football stadiums. The loan is secured by the pledge and transfer to the bank of a security interest in the Association's deposits, monies, securities and other property now or hereafter in the possession of or on deposit with the bank. Principal will be repaid in seven (7) annual installments of \$250,000 commencing on June 30, 2020. The fixed interest rate on the term note is 3.6 percent.

20. 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, 2019 and 2018, are as follows on the following pages (in thousands):

Condensed Statements of Net Position

	2019			
	University	Research Foundation	Athletic Association	Total
Current assets	\$ 121,507	\$ 61,758	\$ 59,070	\$ 242,335
Capital assets	696,798	56,423	223,134	976,355
Other noncurrent assets	68,603	4,758	26,165	99,526
Total assets	886,908	122,939	308,369	1,318,216
Deferred outflows of resources	5,691	1,049	1,340	8,080
Current liabilities	59,716	58,292	65,362	183,370
Due to University	(101,418)	-	101,418	-
Other noncurrent liabilities	287,510	23,974	18,281	329,765
Total liabilities	245,808	82,266	185,061	513,135
Deferred inflows of resources	67,579	11,905	2,645	82,129
Net investment in capital assets	526,449	56,433	133,518	716,400
Restricted-nonexpendable	-	-	4,710	4,710
Restricted-expendable	36,556	25,583	17,371	79,510
Unrestricted	16,205	(52,197)	(33,596)	(69,588)
Total net position	\$ 579,210	\$ 29,819	\$ 122,003	\$ 731,032

	2018			
	University	Research Foundation	Athletic Association	Total
Current assets	\$ 96,697	\$ 50,209	\$ 52,633	\$ 199,539
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	114,332	321,680	1,300,876
Deferred outflows of resources	6,874	1,240	1,566	9,680
Current liabilities	55,466	62,211	61,058	178,735
Due to University	(106,497)	-	106,497	-
Other noncurrent liabilities	313,209	32,309	17,339	362,857
Total liabilities	262,178	94,520	184,894	541,592
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

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

2019				
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 223,173	\$ -	\$ -	\$ 223,173
Clinical services and practice plan	15,419	271,974	-	287,393
Grants and contracts	(294)	106,134	-	105,840
Facilities and administrative cost recoveries	-	28,248	-	28,248
Other operating revenue	28,472	9,327	86,826	124,625
Total operating revenues	266,770	415,683	86,826	769,279
Depreciation	38,304	6,052	7,857	52,213
Other operating expenses	438,605	440,982	133,773	1,013,360
Total operating expenses	476,909	447,034	141,630	1,065,573
Operating loss	(210,139)	(31,351)	(54,804)	(296,294)
State appropriations	128,930	-	-	128,930
Gifts	(237)	775	27,016	27,554
Interest on capital asset-related debt	(10,202)	-	(255)	(10,457)
Other nonoperating revenues	8,495	46,218	(574)	54,139
Capital appropriations	22,131	-	-	22,131
Capital gifts	21,093	-	14,923	36,016
Contributions from affiliates, net	61,324	-	-	61,324
Transfers	5,546	(4,153)	(1,393)	-
Total nonoperating revenues	237,080	42,840	39,717	319,637
Change in net position	26,941	11,489	(15,087)	23,343
Net position - beginning of year	552,269	18,330	137,090	707,689
Net position - end of year	\$ 579,210	\$ 29,819	\$ 122,003	\$ 731,032

2018				
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 217,395	\$ -	\$ -	\$ 217,395
Clinical services and practice plan	13,769	248,327	-	262,096
Grants and contracts	(153)	98,868	-	98,715
Facilities and administrative cost recoveries	-	27,035	-	27,035
Other operating revenues	29,890	6,303	76,491	112,684
Total operating revenues	260,901	380,533	76,491	717,925
Depreciation	36,497	6,537	5,746	48,780
Other operating expenses	449,546	421,823	113,122	984,491
Total operating expenses	486,043	428,360	118,868	1,033,271
Operating loss	(225,142)	(47,827)	(42,377)	(315,346)
State appropriations	132,959	-	-	132,959
Gifts	1,167	480	28,927	30,574
Interest on capital asset-related debt	(10,469)	-	(320)	(10,789)
Other nonoperating revenues	8,731	45,966	(988)	53,709
Capital appropriations	43,975	-	-	43,975
Capital gifts	-	-	393	393
Contributions from affiliates, net	67,608	-	-	67,608
Transfers	13,505	(13,765)	260	-
Total nonoperating revenues	257,476	32,681	28,272	318,429
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 - end of year	\$ 552,269	\$ 18,330	\$ 137,090	\$ 707,689

Condensed Statements of Cash Flows

2019				
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	\$ (166,129)	\$ (14,442)	\$ (28,268)	\$ (208,839)
Noncapital financing activities	216,484	28,697	11,329	256,510
Capital and related financing activities	(22,862)	(4,795)	(5,973)	(33,630)
Investing activities	(18,941)	-	848	(18,093)
Net (decrease)/increase in cash and cash equivalents	8,552	9,460	(22,064)	(4,052)
Cash and cash equivalents, beginning of year	101,396	(39,926)	55,185	116,655
Cash and cash equivalents, end of year	<u>\$ 109,948</u>	<u>\$ (30,466)</u>	<u>\$ 33,121</u>	<u>\$ 112,603</u>

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 increase/(decrease) 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	<u>\$ 101,396</u>	<u>\$ (39,926)</u>	<u>\$ 55,185</u>	<u>\$ 116,655</u>

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. Description of Organization and Summary of Significant Accounting Policies

Recent Accounting Pronouncements

Effective June 30, 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* (ASU 2016-14). ASU 2016-14 changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The Foundation adopted ASU 2016-14 in its consolidated financial statements, applying it retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets from three classes to two classes of net assets and the recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The Foundation also added additional disclosure for the liquidity and availability of financial assets at the consolidated statements of financial position date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018, is as follows:

ASU 2016-14 Classifications			
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
As previously reported:			
Unrestricted	\$ 3,763	\$ —	\$ 3,763
Temporarily restricted	—	325,965	325,965
Permanently restricted	—	461,069	461,069
Net assets as previously reported	3,763	787,034	790,797
Reclassifications to implement ASU 2016-14:			
Underwater endowments	26,820	(26,820)	—
Net assets, as reclassified	\$ 30,583	\$ 760,214	\$ 790,797

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Foundation beginning July 1, 2019, and will be applied using a modified retrospective approach. The Foundation is currently in the process of evaluating its lease contracts, as well as certain service contracts that may include embedded leases. Additionally, the Foundation is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases and incremental disclosures in the consolidated financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statements of financial position and activities and changes in net assets.

2. 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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This policy is consistent for both donor-restricted endowment funds and board-designated endowment funds that have donor restrictions.

The composition of net assets by type of endowment fund at June 30, 2019 and 2018, were:

		2019		
		Without Donor Restrictions	With Donor Restrictions	Total
		<i>(In Thousands)</i>		
Donor-restricted endowment funds	\$	–	\$ 491,477	\$ 491,477
Board-designated endowment funds		38,421	134,181	172,602
	\$	38,421	\$ 625,658	\$ 664,079
<hr/>				
		2018		
		Without Donor Restrictions	With Donor Restrictions	Total
		<i>(In Thousands)</i>		
Donor-restricted endowment funds	\$	–	\$ 469,917	\$ 469,917
Board-designated endowment funds		41,553	141,684	183,237
	\$	41,553	\$ 611,601	\$ 653,154

The 2018 amounts have been restated to exclude certain current use and other funds that are no longer considered part of the endowment due to the adoption of ASU 2016-14 and further analysis of these amounts or funds that are disclosed separately in the notes to the consolidated financial statements.

Changes in endowment net assets for the years ended June 30, 2019 and 2018 were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Endowment net assets, beginning of year	\$ 41,553	\$ 611,601	\$ 653,154
Investment return:			
Investment and endowment income	383	5,887	6,270
Net appreciation	517	8,229	8,746
Total investment return	900	14,116	15,016
Contributions	3	10,791	10,794
Appropriations	(1,616)	(28,076)	(29,692)
Other changes	(2,419)	17,226	14,807
Endowment net assets, end of year	\$ 38,421	\$ 625,658	\$ 664,079

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
	(In Thousands)		
Endowment net assets, beginning of year	\$ 41,215	\$ 599,785	\$ 641,000
Investment return:			
Investment and endowment income	309	4,742	5,051
Net appreciation	2,684	42,723	45,407
Total investment return	2,993	47,465	50,458
Contributions	351	4,107	4,458
Appropriations	(2,537)	(44,081)	(46,618)
Other changes	(468)	4,324	3,856
Endowment net assets, end of year	\$ 41,553	\$ 611,601	\$ 653,154

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 \$24.2 million and \$26.8 million at June 30, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of contributions with donor restrictions. The Foundation's spending policy allows for a pro-rated amount of appropriations in certain instances of endowments with these deficiencies.

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 achieve 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 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.

In April 2019, the Board of the Foundation approved a 4.25% spending policy for the fiscal year 2020 for support to the academic units and allocated 1.25% 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 Deflator) plus the average level of spending from total endowment assets. The annual return for total endowment assets was 1.7% and 7.1% in 2019 and 2018, respectively.

3. Investments and Investment Income

Investments as of June 30, 2019 and 2018, are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Cash equivalents	\$ 42,117	\$ 17,904
Alternative investments:		
Hedge funds	143,581	152,019
Investments in partnerships	365,599	363,837
Mutual funds:		
Equity	34,468	43,499
Fixed income	44,659	46,908
Marketable alternatives:		
Domestic marketable equity securities	28,902	24,235
Marketable debt securities:		
Agency bonds	1,473	17,406
U.S. Treasury	34,818	19,514
Total investments	<u>\$ 695,617</u>	<u>\$ 685,322</u>

Restricted investments are restricted by bond indenture for payment of debt service and repairs and replacement. Restricted investments as of June 30, 2019 and 2018, are as follows:

	2019	2018
	<i>(In Thousands)</i>	
Cash equivalents	\$ –	\$ 3,572
U.S. agency obligations	–	1,670
	<u>\$ –</u>	<u>\$ 5,242</u>

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, 2019 and 2018, consisted of the investments on the following page (in thousands):

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	<i>(In Thousands)</i>			
Hedge funds	\$ 143,581	\$ 1,928	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	365,599	59,796	Various from monthly to illiquid	Various from 30 to 180 days
	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	<i>(In Thousands)</i>			
Hedge funds	\$ 152,019	\$ 12,781	Various from quarterly to illiquid	Various from 30 to 90 days
Investments in partnerships	363,837	67,459	Various from monthly to illiquid	Various from 30 to 180 days

4. 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, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
Cash	\$ 9,785	\$ —	\$ —	\$ 9,785
Cash equivalents	42,117	—	—	42,117
Mutual funds:				
Equity	34,468	—	—	34,468
Fixed income	44,659	—	—	44,659
Domestic marketable equity securities	28,902	—	—	28,902
Marketable debt securities:				
Agency bonds	—	1,473	—	1,473
U.S. Treasury	34,818	—	—	34,818
Total investments	184,964	1,473	—	186,437
Funds held in trust by others	—	58,675	—	58,675
Total cash, investments, funds held in trusts by others, and restricted investments	\$ 194,749	\$ 60,148	\$ —	254,897
Investments at NAV:				
Hedge funds				143,581
Investments in partnerships				365,599
				<u>\$ 764,077</u>

	Level 1	Level 2	Level 3	Total
	<i>(In Thousands)</i>			
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
				<u>\$ 755,595</u>

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, 2019.

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, 2019 and 2018. 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.

5. Guarantees

a. Loans

As of June 30, 2019 and 2018, 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 \$746,000 and \$856,000 outstanding as of June 30, 2019 and 2018, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2019 and 2018, the amount under guarantee was \$7.3 million and \$7.6 million, respectively.

The Foundation has not made any payments on these guarantees to date.

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.

6. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities that 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 that result from gifts to the Trust. The market value of the Trust was approximately \$26.2 million and \$25.9 million as of June 30, 2019 and 2018, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$32.5 million and \$32.8 million as of June 30, 2019 and 2018, respectively. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2019 and 2018, the Foundation recorded income of \$1.9 million and \$3.5 million, respectively, from these trusts, which is included in changes in funds held in trust by others on the consolidated statements of activities and changes in net assets.

7. 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. As of June 30, 2019 and 2018, the Foundation held approximately \$11.2 million and \$13.6 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, 2019 and 2018, 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, 2019 and 2018, the Foundation held approximately \$200,000 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.

8. Transactions with ULREF

In 2019 and 2018, there were approximately \$11.9 million and \$0, respectively, of contributions directly from ULREF related to ULH property transfers and general assignments of its assets and liabilities.

In November 2018, ULH decreased approximately \$26 million of outstanding bonds and transferred capital assets with a net book value of approximately \$33 million to ULREF. ULH entered into an assignment agreement with the Foundation to transfer, assign, and convey approximately \$10 million of the ULH bond escrow proceeds to the Foundation in December 2018 which were placed into the Foundation's endowment. Additionally, ULH entered into general assignment and assumption agreements in January 2019 to transfer all other assets and liabilities of ULH to ULREF. ULH filed articles of dissolution in January 2019, subsequent to these transfers.

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.

At June 30, 2019 and 2018, the net receivable from ULREF is \$17.4 million and \$21.9 million, respectively, and is included as due from the University of Louisville Real Estate Foundation in the consolidated statements of financial position. The amount due from ULREF is included within the endowment assets as of June 30, 2019 and 2018. See Note 7 for further information regarding the endowment.

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, 2019 and 2018, the Foundation payments to Preston are insignificant. In June 2019, the Foundation was released from the Master Parking Lease Agreement.

a. 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. Description of Organization and Summary of Significant Accounting Policies

In December 2014, ULREF became a 51% owner of Campus Three, LLC (Campus Three). In March 2016, ULREF received a 51% ownership interest in Campus Two, LLC (Campus Two) from the Foundation. In July 2016, ULREF became a 51% owner of Campus 435, LLC (Campus 435); Campus 805, LLC (Campus 805); and Campus 815, LLC (Campus 815). These joint ventures build and manage commercial real estate property on the University’s Shelby Campus.

The Foundation entered into ground leases to develop a portion of the University's Shelby Campus property. On or about the date of each respective lease, ULREF and NTS entered into a Development Agreement, an Operating Agreement, and a Management Agreement, which state that NTS Development Company (NTS DevCo) will be the developer and NTS Management Company (NTS Mgt Co) will be the manager, and which provide for management, leasing, and development fees to be paid by ULREF to NTS DevCo and NTS Mgt Co. The initial term of the Operating Agreement is ten years. Campus Two and Campus Three may terminate the Management Agreement for cause upon 60 days' written notice at any time. NTS may terminate the Management Agreement without cause upon 60 days' written notice or terminate the Management Agreement for cause at any time upon prior written notice, and, in such case, NTS may require ULREF to purchase NTS's interest in Campus Three and/or in Campus Two.

ULREF has evaluated these investments as variable interest entities (VIEs) in accordance with ASC 810, *Consolidation*. A legal entity is referred to as a VIE if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated if an entity is deemed to be the primary beneficiary of the VIE.

All facts and circumstances are taken into consideration when determining whether ULREF has variable interests that would deem it the primary beneficiary and therefore require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of ULREF's consolidated financial statements. In many cases, it is qualitatively clear based on whether ULREF has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether ULREF is obligated to absorb significant losses of, or has a right to receive, significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

ULREF monitors the consolidated and unconsolidated VIEs to determine whether any reconsideration events have occurred that could cause any of them to no longer be a VIE. ULREF reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when ULREF becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when ULREF ceases to be the primary beneficiary or the entity is no longer a VIE.

ULREF has concluded that it is not the primary beneficiary in any of these investments, and, therefore, these investments are accounted for using the equity method of accounting.

In August 2017, the Board resolved to negotiate restructuring the agreements relating to Campus 435, Campus 805, and Campus 815. Significant changes include extension of the land leases by approximately 25 years from their current 65-year term. ULREF assigned its membership interest in these three project entities to NTS, and NTS will release ULREF from all financial and other obligations in the development, construction, and management of the projects. In September 2017, NTS returned to ULREF an amount equal to the development costs expended by ULREF, which approximated \$340,000.

Tax Incremental Financing Revenues

TIF revenues are reimbursements from certain agreements between ULREF, the Commonwealth of Kentucky, and the Louisville/Jefferson County Metro Government. Revenues from these agreements are based on allocations of property taxes, sales and use tax, and income taxes, which vary based on the terms stated in each respective agreement. The TIF districts are located in downtown Louisville, the University's Belknap Campus area, and ShelbyHurst in east Jefferson County.

For the years ended June 30, 2019 and 2018, ULREF recorded approximately \$9.6 million and \$8.0 million, respectively, of TIF revenues.

Recent Accounting Pronouncements

Effective June 30, 2019, ULREF adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* (ASU 2016-14). ASU 2016-14 changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. ULREF adopted ASU 2016-14 in its consolidated financial statements, applying it retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated balance sheets and the consolidated statements of changes in net assets from three classes to two classes of net assets. ULREF also added additional disclosure for the liquidity and availability of financial assets at the consolidated balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adoption of ASU 2016-14 had no impact on revenues, gains, and other support; total expenses; or changes in net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for ULREF beginning July 1, 2019, and will be applied using a modified retrospective approach. ULREF is currently in the process of evaluating its lease contracts, as well as certain service contracts that may include embedded leases. Additionally, ULREF is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The adoption of this new standard is not expected to have a material impact on the consolidated statements of financial position, activities, and changes in net assets.

2. Capital Assets

Capital assets at June 30, 2019 and 2018, consist of the following (in thousands):

	2019	2018
Land and land improvements	\$ 51,722	\$ 56,807
Buildings	100,864	41,731
Building improvements	2,072	1,779
Tenant finish	3,596	3,526
Furniture, fixtures, and equipment	2,576	1,477
	<u>160,830</u>	<u>105,320</u>
Accumulated depreciation	(10,100)	(6,337)
Construction-in-progress	1,275	1,117
	<u>\$ 152,005</u>	<u>\$ 100,100</u>

3. Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2019 and 2018, were as follows on the following page (in thousands):

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets and liabilities:				
In-place leases	\$ 525	\$ (370)	\$ 1,268	\$ (771)
Above-market leases	2,927	(529)	3,015	(492)
Tax incremental financing	116,600	(16,693)	116,600	(12,329)
Below-market leases	(673)	631	(1,449)	744

Amortization expense for each of the years ended June 30, 2019 and 2018, was approximately \$4.5 million.

At June 30, 2019, 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
2020	\$ 81	\$ 125	\$ 4,364	\$ (42)
2021	17	125	4,364	—
2022	17	125	4,364	—
2023	17	125	4,364	—
2024	12	125	4,364	—
Thereafter	11	1,773	78,087	—
Total	<u>\$ 155</u>	<u>\$ 2,398</u>	<u>\$ 99,907</u>	<u>\$ (42)</u>

4. Debt

Debt in the consolidated statements of financial position at June 30, 2019 and 2018 consists of the following on the following page (in thousands):

	Description	Fiscal Year of Maturity	2019	2018
Construction Loan Agreement - 220 Preston LLC	Variable rate based on LIBOR plus 1.5% with monthly interest-only payments commencing February 2015 and principal payment at maturity	2019	\$ -	\$ 9,340
Permanent Financing - 220 Preston LLC	Fixed 3.65% rate with 5-year maturity and 20-year amortization commencing June 2019; quarterly principal and interest payments commencing September 2019 with all outstanding principal and interest payments due in full at the maturity date	2024	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	12,000	16,000
Northwestern Mutual Loan- Housing	Fixed 4.77% rate with 20-year amortization commencing November 2018; principal and interest payments monthly commencing January 2019	2038	41,257	-
Debt			\$ 62,597	\$ 25,340
Less debt issuance costs			(573)	(63)
Total debt			\$ 62,024	\$ 25,277

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.

Preston refinanced the construction loan in June 2019. The new permanent financing note has a fixed rate of 3.65%, 5-year maturity with a 20-year amortization with principal and interest payments due quarterly and all outstanding principal and accrued interest due in full at the maturity date. Preston is required to maintain a debt service coverage ratio of 1.00 to 1.00. At June 30, 2019, Preston was in compliance with this debt requirement.

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, 2019.

A summary of scheduled principal payments on the above obligations is as follows (in thousands):

Year ending June 30:	
2020	\$ 1,678
2021	1,849
2022	13,917
2023	1,987
2024	9,067
Thereafter	34,099
	<u>\$ 62,597</u>

5. 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.

NTS Realty Holdings exercised its put option to sell its interest in Preston in March 2019, resulting in ULREF acquiring NTS's 20% minority interest. ULREF is now the sole member and consolidates its 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, 2019 and 2018 (in thousands):

	2019	2018
Cash	\$ 151	\$ 149
Accounts receivable	–	10
Other assets	–	2
Capital assets, net	<u>15,474</u>	<u>16,013</u>
Total assets	<u>\$ 15,625</u>	<u>\$ 16,174</u>
Accounts payable and accrued liabilities	\$ 132	\$ 119
Note payable	<u>9,331</u>	<u>9,338</u>
Total liabilities	<u>\$ 9,463</u>	<u>\$ 9,457</u>

The operations of the non-controlling interest are not considered material for the years ended June 30, 2019 or 2018.

6. Leasing Activities

The ULREF leases space to tenants under noncancellable operating leases. As of June 30, 2019, the ULREF had various leases expiring in 1 to 87 years, through 2106. These leases generally require the Real Estate Foundation to pay all executory costs (property, taxes, maintenance and insurance).

Rental revenue at June 30, 2019 and 2018, was as follows on the following page (in thousands):

	2019	2018
Base minimum rents	\$ 10,432	\$ 4,401
Common area maintenance	97	9
	<u>\$ 10,529</u>	<u>\$ 4,410</u>

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
	<u>\$ 9,798</u>

Included in the amounts above is a certain subleased property that requires ULREF to pay approximately \$450,000 annually in rent for ten years, with escalating provisions during the lease term. The basic provisions of ULREF's sublease for this property are equal to its lease commitment.

b. 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. All 17 clinical departments had been integrated into the Organization at various times.

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

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges totaled \$1.4 million and \$1.6 million for the years ended June 30, 2019 and 2018, respectively. Management has estimated its cost incurred to provide charity care to be approximately \$741,000 and \$752,000 for the years ended June 30, 2019 and 2018, respectively.

2. Investment in Kentuckiana Medical Reciprocal Risk Retention Group

The investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG) is accounted for at the estimated value of the Organization's subscriber savings account and subscriber paid-in surplus under which the Organization'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. ULP participates in the management of KMRRRG and has the ability to significantly influence the operating and financial policies of KMRRRG. The Organization has a 6.12% membership in KMRRRG.

Management believes the value recorded best estimates the amount ULP would receive if it chose to withdraw from KMRRRG. KMRRRG is the Organization's carrier for liability insurance coverage and is a reciprocal captive risk retention group.

The investment in KMRRRG totaled \$21.5 million and \$20.5 million as of June 30, 2019 and 2018, 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 the Organization 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.

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, 2019 and 2018 is as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 387,323	\$ 375,929
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	(245,237)	(212,040)
Provision for uncollectible accounts	(27,378)	(51,589)
	<u>(272,615)</u>	<u>(263,629)</u>
Net patient service revenue	<u>\$ 114,708</u>	<u>\$ 112,300</u>

c. 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 Kentucky Revised Status 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.

On November 13, 2012, the Corporation entered into a Joint Operating Agreement (JOA) with KentuckyOne Health, Inc. (KOH), a Kentucky nonprofit corporation, with an effective date of March 1, 2013. As a result of the JOA, KOH managed and operated UMC with the exception of neonatal intensive care unit, obstetrical and male or female reproductive services. In conjunction with the execution of the JOA, KOH, UMC and UofL entered into an Academic Affiliation Agreement. These agreements were subsequently terminated and/or amended.

On December 14, 2016, UMC, UofL and KOH entered into an agreement to restructure the relationship between the parties, to terminate the JOA as of midnight June 30, 2017, and to transition operation and management of hospital operations back to UMC and UofL.

Additionally, effective July 1, 2017, an amended and restated lease agreement between the Commonwealth of Kentucky, UofL and UMC was entered into. The Corporation also entered into an Amended and Restated Academic Affiliation Agreement with UofL, effective July 1, 2017, which grants the Corporation the right to lease and operate an acute-care teaching hospital and related medical facilities. The initial term is two years from the effective date annual renewals in accordance with the agreement. The agreement was renewed until June 30, 2020.

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.

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 \$575.4 million and \$554.2 million during 2019 and 2018), an estimated \$1,741,000 and \$3,680,000 arose from providing services to charity patients during 2019 and 2018, respectively. 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.

2. Deposits and Investments

Deposits and investments are comprised of the following at June 30, 2019 and 2018:

	2019		2018	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Cash and cash equivalents	67,902	67,902	81,270	81,270
Money market deposit accounts	24,005	24,005	26,821	26,821
US government obligations	6,923	6,403	8,633	8,531
Mortgage backed securities	11,245	10,973	9,575	9,572
Municipal bonds	557	515	485	486
Mutual funds	50,295	49,711	49,364	47,878
Common stocks	2,219	2,294	2,318	2,254
Mortgage bonds	4,474	4,381	3,957	3,954
Asset backed bonds	6,640	6,446	5,367	5,359
Corporate bonds	27,709	26,956	21,517	21,574
Limited partnerships	10,086	9,398	9,612	9,399
Total	\$ 212,055	\$ 208,984	\$ 218,919	\$ 217,098

	2019		2018	
	Fair Value	Amortized Historical Cost	Fair Value	Amortized Historical Cost
Included in the balance sheet captions:				
Cash and cash equivalents	\$ 67,901,452	\$ 67,901,452	\$ 80,716,818	\$ 80,716,818
Investments	144,152,604	141,082,141	138,201,999	136,380,650
Total	<u>\$ 212,054,056</u>	<u>\$ 208,983,593</u>	<u>\$ 218,918,817</u>	<u>\$ 217,097,468</u>

3. Investment in Joint Ventures

The Corporation has a 29.6% and 30.9% ownership in a joint venture, Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG) as of June 30, 2019 and 2018, respectively. 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. KMRRRG has separate financial statements available. 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, 2019 and 2018 was approximately \$11.4 million and \$11.9 million, respectively.

4. 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.

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 Corporation increased net patient service revenue by approximately \$3.5 million and \$483,000 in 2019 and 2018, respectively, 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 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 48.4% and 12.5% interest in Passport as of June 30, 2019 and 2018, respectively. During fiscal year 2019 the Corporation purchased an additional 35.9% interest in Passport from University of Louisville Physicians, Inc.

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.

5. Net Patient Service Revenue

Net patient service revenue consists of the following:

	2019	2018
Patient revenue:		
Inpatient services	\$ 1,331,614	\$ 1,215,184
Outpatient services	1,370,673	1,335,388
Total patient revenue	2,702,287	2,550,572
Revenue deductions:		
Provision for contractual allowances	2,117,590	2,064,811
Provision for bad debt allowances	16,023	18,148
Charity care	8,175	16,937
Total revenue deductions	2,141,788	2,099,896
Total net patient service revenue	\$ 560,499	\$ 450,676

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

	<u>6/30/2019</u>	<u>6/30/2018</u>
Total OPEB liability		
Service Cost	\$ 4,630	\$ 5,203
Interest	3,296	2,728
Difference between expected and actual experience	(1,718)	(2,608)
Changes of assumption	(27,504)	(5,495)
Benefit payments	<u>(2,817)</u>	<u>(3,007)</u>
Net change in OPEB Liability	(24,113)	(3,179)
OPEB liability - beginning of year	<u>88,843</u>	<u>92,022</u>
OPEB liability - end of year	<u><u>\$ 64,730</u></u>	<u><u>\$ 88,843</u></u>
 Covered employee payroll	 \$ 450,332	 \$ 445,356
 Total OPEB liability as a percentage of covered employee payroll	 14.37%	 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.