UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Auditor's Report and Financial Statements
June 30, 2020 and 2019

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
For the Years Ended June 30, 2020 and 2019

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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 years ended June 30, 2020 and 2019, 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 Health, Inc. (UofL Health), 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, UofL Health, 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, UofL Health, 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, 2020 and 2019, 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 and Analysis on pages 4 through 19 and the Postemployment Benefit Information on page 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
University of Louisville and Affiliated Corporations

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, on our consideration of the University of Louisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University of Louisville's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Louisville's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 20, 2020

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, 2020 and 2019. Comparative information for the year ended June 30, 2018 has been provided where applicable. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association (Association), both blended component units of the University. The University of Louisville Foundation, Inc., University of Louisville Real Estate Foundation, Inc., and UL Health, Inc. are discretely presented component units of the University. The financial results of the discretely presented component units are presented in columnar format along side the University's financial statements with additional information presented in the notes to the financial statements. Comments presented in the management's discussion and analysis pertain to the University and its blended component units only and should be read in conjunction with the financial statements and notes that follow this section.

The University of Louisville is a state-supported research university located in Louisville, Kentucky. It was a municipally supported public institution for many decades prior to joining the University system in 1970. The University has three campuses. The 287-acre Belknap Campus is three miles from downtown Louisville and houses eight of the University's 12 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. The 243-acre Shelby Campus is located in eastern Jefferson County. The University offers approximately 73 undergraduate degree programs, 80 master level graduate degree programs, 36 doctoral degree programs, and 3 professional degree programs.

The University strives to be recognized as a great place to learn, a great place to work and a great place in which to invest because we celebrate diversity, foster equity and strive for inclusion. The University of Louisville pursues excellence and inclusiveness in its work 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.
- Providing engaged service and outreach that improves the quality of life for local and global communities.

Component Units

A description of the discretely presented component units of the University follows:

University of Louisville Foundation, Inc. (Foundation): 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 held for the benefit of the University at June 30, 2020, were $707.5 million, a decrease of $12.3 million from the June 30, 2019 balance of $719.8 million.

University of Louisville Real Estate Foundation, Inc. (ULREF): The ULREF is a nonprofit corporation formed with the purpose to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University.

UL Health, Inc. (UL Health): UL Health is a nonprofit corporation with the purpose to establish a full service, seamless health care system of owned, affiliates and contracted services, programs and facilities.

University of Louisville Physicians, Inc. (ULP): 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. ULP's operations are consolidated into UL Health for fiscal year 2020.

University Medical Center, Inc. (UMC): The UMC is a private nonprofit corporation that manages the operations of University Hospital. UMC's operations are consolidated into UL Health for fiscal year 2020.

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.

UMC and ULP, both discretely presented component units in the 2019 financial statements, merged into UL Health as of November 1, 2019. At that time, UL Health became the entity overseeing operations of the University of Louisville Hospital and the clinical activities of the School of Medicine faculty. UL Health is closely affiliated with the University as it partnered with the School of Medicine in providing education, research and innovation in hospitals and clinics.

On November 1, 2019, the University completed the acquisition of the assets and operations of Jewish Hospital and St. Mary's Healthcare, Inc. from KentuckyOne Health, Inc. (KentuckyOne). The transaction transitioned certain of the capital assets to the University while the remainder of the capital assets, leases and operating agreements were assigned to and recorded by UL Health. UL Health took over operation of the hospitals, outpatient medical centers and physician groups previously affiliated with KentuckyOne. Additional information about the transaction can be found in the notes to the financial statements.

During the 2020 academic year, the World Health Organization declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (referred to as the Pandemic). Response to this Pandemic has caused unprecedented changes in the delivery of education, research, health care and administration. The University responded to the Pandemic by pivoting to a fully online delivery of educational instruction, continuing essential research with a hybrid remote/onsite approach, remote work plans for faculty, staff and administration, where possible, and immediate planning for the near term needs and long-term strategy for continued educational, research and community outreach. To lessen the loss of revenues from cancellation of spring and summer activities, the University enacted cost cutting measures.

- Reduction of salaries by 1% to 10% starting in April 2020,
- Suspension of the employer matching contribution to the 403b retirement plan for the months of May, June, and July, 2020,
- Furlough of employees in areas impacted by the reduction or elimination of campus activities,
- Budget reductions to curtail spending and eliminate travel in the last quarter of the 2020 fiscal year.

These circumstances have changed the operations of the University and further adaptive measures are anticipated to meet the needs of the students, faculty, staff and community as the pandemic unfolds in the future.

Using the Financial Statements

The University's financial report includes the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities.

Statements of Net Position

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

A condensed version of the University's assets, liabilities, and net position at June 30, 2020, 2019, and 2018 (in thousands) is summarized below:

Condensed Statements of Net Position	**2020**	**2019**	**2018**	**2020-2019 Change**	**2019-2018 Change**
ASSETS					
Current Assets	$ 261,092	$ 242,335	$ 199,539	$ 18,757	$ 42,796
Other long-term investments	14,166	17,271	1,360	(3,105)	15,911
Capital assets, net	1,078,175	976,355	971,395	101,820	4,960
Other	150,678	82,255	128,582	68,423	(46,327)
Total Assets	1,504,111	1,318,216	1,300,876	185,895	17,340
DEFERRED OUTFLOWS OF RESOURCES	13,687	8,080	9,680	5,607	(1,600)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,517,798	1,326,296	1,310,556	191,502	15,740
LIABILITIES					
Current Liabilities	163,319	183,370	178,735	(20,051)	4,635
Noncurrent Liabilities	373,204	329,765	362,857	43,439	(33,092)
Total Liabilities	536,523	513,135	541,592	23,388	(28,457)
DEFERRED INFLOWS OF RESOURCES	65,829	82,129	61,275	(16,300)	20,854
NET POSITION					
Net investment in capital assets	825,433	716,400	701,024	109,033	15,376
Restricted-nonexpendable	1,349	4,710	1,633	(3,361)	3,077
Restricted-expendable	84,417	79,510	79,622	4,907	(112)
Unrestricted	4,247	(69,588)	(74,590)	73,835	5,002
Total net position	915,446	731,032	707,689	184,414	23,343
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,517,798	$ 1,326,296	$ 1,310,556	$ 191,502	$ 15,740

Assets

Current Assets consist primarily of cash; loans, accounts and contributions receivable, inventories, due from affiliates and investments held with the Foundation. The increase in current assets of $18.8 million for the year ended June 30, 2020 as compared to June 30, 2019 is mainly attributed to an increase in cash and equivalents of $38.1 million, offset by reductions in $10.3 million in funds due from affiliates and a reduction of $5.7 million in investments held by the Foundation. The reduction in investments held by the Foundation represents investments that were liquidated and are now invested in cash equivalents at the University.

Capital assets, net of accumulated depreciation, represented 72% of total assets as of June 30, 2020. Noncurrent loans, accounts and contributions receivable, restricted cash and cash equivalents, and due from the Foundation comprise the remainder of assets.

Noncurrent assets increased $167.1 million in fiscal 2020, with capital assets accounting for $101.8 million of the increase, noncurrent due from affiliates accounted for an additional $31.0 million, and an increase in restricted cash of $46.7 million for proceeds of debt for capital asset construction.

The acquisition of the Jewish Hospital system resulted in the University recording assets valued at $132.4 million for the Jewish Hospital, Frazier Rehab Institute and Peace Hospital (Formally, Our Lady of Peace Hospital). This acquisition, along with other capital purchases, netted with $56.8 million of depreciation, accounts for the significant increase in capital assets. The increase in due from affiliates can be attributed to a long-term receivable of $37.0 million from UL Health for additional academic mission support. Financing of the construction of a new dormitory through a bond offering of $45.3 million accounts for the increase in restricted cash as proceeds from the bond offering are held in restricted cash until used.

In fiscal year 2019, current assets increased $42.8 million due primarily to an increase of $23.4 million of cash and cash equivalents and an increase of $11.6 million in due from affiliates. The increase in cash and cash equivalents is attributable to the enhanced cash management and investment policies. Due from affiliates increased due to a receivable from an affiliate of $15.0 million, offset by other regular payments on prior balances. Noncurrent assets decreased $25.5 million in fiscal 2019. Capital assets, net, increased $5.0 million due mainly to the completion of construction projects. Offsetting this increase is restricted cash and cash equivalents that decreased $33.7 million due to progress payments to contractors on construction projects, and 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 Academic Affiliation Agreement (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, of future payments to be made for other postretirement employment benefits (OPEB), and the fair market of an interest rate swap. In fiscal year 2020, deferred outflows increased $5.6 million to $13.7 million as compared to $8.1 million as of June 30, 2019.

Liabilities

Current liabilities decreased by $20.1 million in fiscal year 2020 as compared to 2019. Accounts payable and accrued liabilities and advances comprise 84% of total current liabilities and decreased by $20.7 million in fiscal year 2020. The decrease noted was attributable to the concerted effort by administration to reduce expenses in the last quarter of fiscal year 2020 due to the Pandemic curtailing or suspending on campus operations of the University.

Noncurrent liabilities increased $43.4 million during fiscal year 2020. Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. This balance increased by $28.1 million primarily from new bond issuance and master lease draws offset by normal principle payments. Other long-term liabilities includes future estimated payments for OPEB which increased by $9.5 million.

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. The $33.1 million decrease in noncurrent liabilities during fiscal year 2019 primarily is due to a pay down of principal on long-term bond and note payables of $13.1 million and $24.1 million reduction of other postretirement benefits.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. Deferred inflows decreased by $16.3 million during fiscal year 2020. The University recognized a reduction of $12.1 million deferred inflows to reflect receipts related to service concession arrangements for food service, bookstore and printing services. A decrease of $7.8 million was for a contract modification of the food service agreement. Deferred inflows decreased $4.2 million related to a change in actuarial assumptions and the difference between expected and actual experience used in the calculation of the OPEB liability. 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.

In fiscal year 2019, the University recognized an increase of $20.9 million mainly due to changes in the actuarial assumptions and the difference between expected and actual experience used in the calculation of the OPEB liability totaling $24.1 million and a $4.0 million reduction related to service concession arrangements for food service, bookstore and printing services.

Net Position

In fiscal year 2020, net position increased $184.4 million. This increase is attributed to a reduction of the operating loss of $77.4 million and the gain on asset acquisition of $132.4 million recognized on acquired assets, offset by a reduction of capital appropriations and gifts of $49.1 million. Improved operations in clinical and practice plans is the result of new affiliation agreements maximizing efficiencies and operations in pediatrics and clinical activities. The University also experienced significant operational savings while campus activities were halted at the end of fiscal year 2020.

In fiscal year 2019, total net position increased $23.3 million. The improvement was driven by a reduction in operating loss of $19 million, principally due to increased clinical revenues recognized in 2019 of $25.3 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. Intercollegiate athletics revenues improved by $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% in resident and nonresident undergraduate tuition rates. These revenue increases were offset by an increase in operating expenses of $32.3 million.

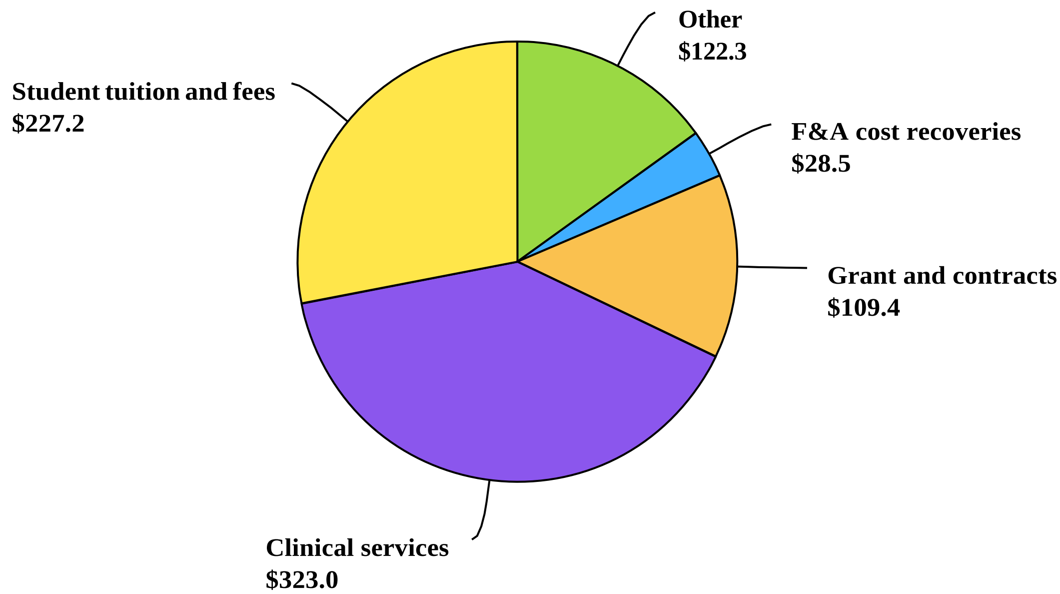
Statements of Revenues, Expenses, and Changes in Net Position

The University's condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2020, 2019, and 2018 (in thousands) are summarized below:

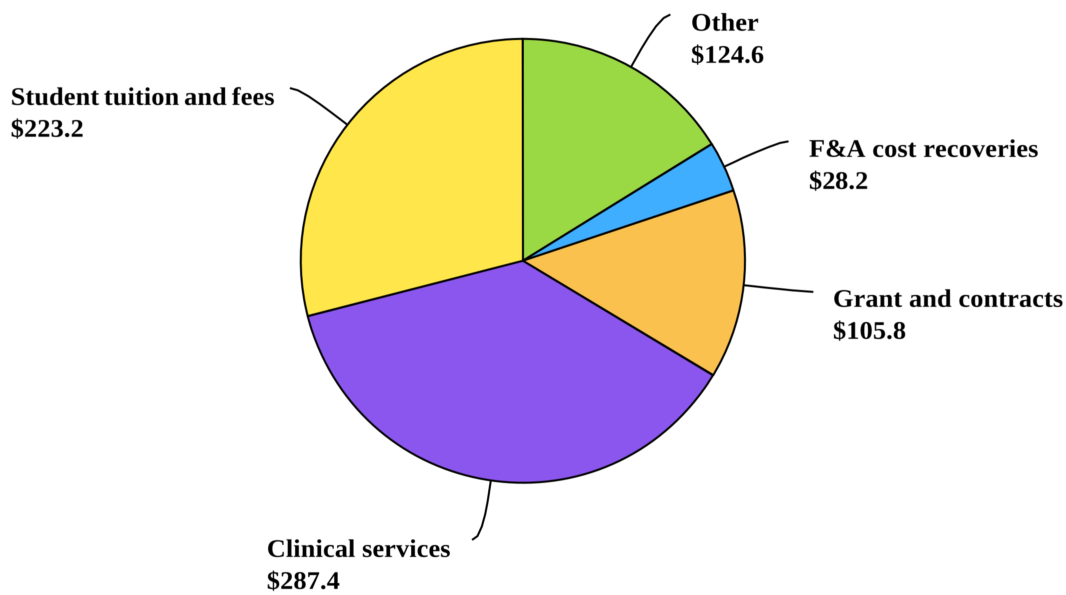
Condensed Statements of Revenues, Expenses, and Changes in Net Position	**2020**	**2019**	**2018**	**2020-2019 Change**	**2019-2018 Change**
OPERATING REVENUES					
Student tuition and fees, net	$ 227,233	$ 223,173	$ 217,395	$ 4,060	$ 5,778
Clinical services and practice plan	322,989	287,393	262,096	35,596	25,297
Grants and contracts	109,399	105,840	98,715	3,559	7,125
Facilities and administrative cost	28,452	28,248	27,035	204	1,213
Other	122,377	124,625	112,684	(2,248)	11,941
Total operating revenues	810,450	769,279	717,925	41,171	51,354
OPERATING EXPENSES					
Depreciation	56,840	52,213	48,780	4,627	3,433
Other	972,510	1,013,360	984,491	(40,850)	28,869
Total operating expenses	1,029,350	1,065,573	1,033,271	(36,223)	32,302
NONOPERATING REVENUES (EXPENSES)					
State appropriations	128,712	128,930	132,959	(218)	(4,029)
Other nonoperating revenues	142,189	190,707	185,470	(48,518)	5,237
Total nonoperating revenues	270,901	319,637	318,429	(48,736)	1,208
Increase/(decrease) in net position	52,001	23,343	3,083	28,658	20,260
Special Items					
Transfer of operations	132,413	—	—	132,413	—
Increase (decrease) in net position after special items	184,414	23,343	3,083	161,071	20,260
Net position - beginning of year	731,032	707,689	748,214	23,343	(40,525)
Cumulative effect of change in accounting principle	—	—	(43,608)	—	43,608
Net position - beginning of year	731,032	707,689	704,606	23,343	3,083
Net position - end of year	$ 915,446	$ 731,032	$ 707,689	184,414	$ 23,343

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, 2020 and 2019 (in millions):

Operating Revenues
Year Ended June 30, 2020



Operating Revenues
Year Ended June 30, 2019



Operating Revenues

Revenues from tuition, clinical services, certain grants and contracts, intercollegiate athletics and auxiliary services are classified as operating revenues. While still an important source of support for University academic programs, other revenue sources, such as state appropriations, gifts and contributions from the Foundation are considered nonoperating revenues as defined by GASB.

Student tuition and fees, net of allowances for scholarships and fellowships were $227.2 million and $223.2 million, or 28% and 29% of total operating revenues for the years ended June 30, 2020 and 2019, respectively. The University adopted a 2.5% gross tuition rate increase for fiscal year 2020 and had a 3.0% gross tuition rate increase for fiscal year 2019. 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 2020 and 2019, scholarship and financial aid expense was about the same providing a 30% discount of tuition and fee expense. Enrollment for the spring and fall semesters of fiscal year 2020 were stable and the University was able to successfully pivot to fully online learning in March 2020 to complete the semester amid the Pandemic. All summer instruction was offered in an online format which allowed the University to increase its overall summer semester enrollment.

Clinical services and practice plan revenue amounted to $323.0 million and $287.4 million, or 40% and 37% of total operating revenues for fiscal years 2020 and 2019, respectively. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services, clinical support provided to affiliated hospitals, and the University's professional practice plan arrangements. The 12% increase in revenue for 2020 totaling $35.6 million resulted from improved academic affiliation and clinical practice agreements for the pediatric services of the Medical School and additional academic mission support provided by positive hospital operations in excess of budgeted operations.

Revenue from operating grants and contracts were $109.4 million and $105.8 million for the years ended June 30, 2020 and 2019, respectively, an increase of $3.6 million. This increase in fiscal year 2020 is result of an increase in nongovernment grants and contracts of $6.9 million, offset by reductions in federal and state contracts.

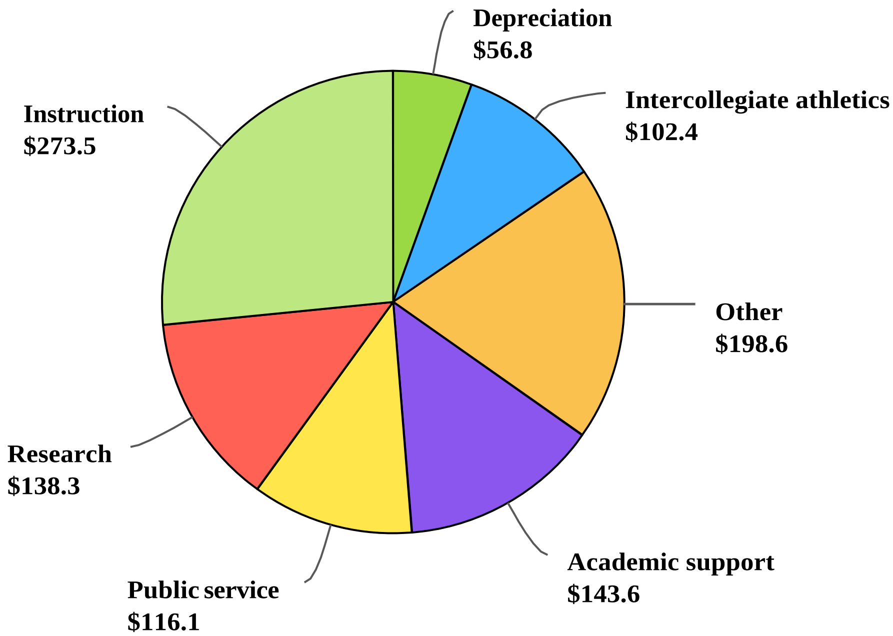
The University's contracts from government and private sources normally provide for the recovery of indirect or overhead costs. Facilities and administrative (F&A) cost recoveries were $28.5 million and $28.2 million for the years ended June 30, 2020 and 2019, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

Operating revenues increased $51.4 million in fiscal year 2019 over fiscal year 2018. All major revenue categories increased with the most significant increases in clinical services and practice plan of $25.3 million due to increased programmatic support, intercollegiate athletics of $10.3 million due to contractual revenues and an additional home football game, and tuition and fees of $5.8 million due to an increase in the tuition rate.

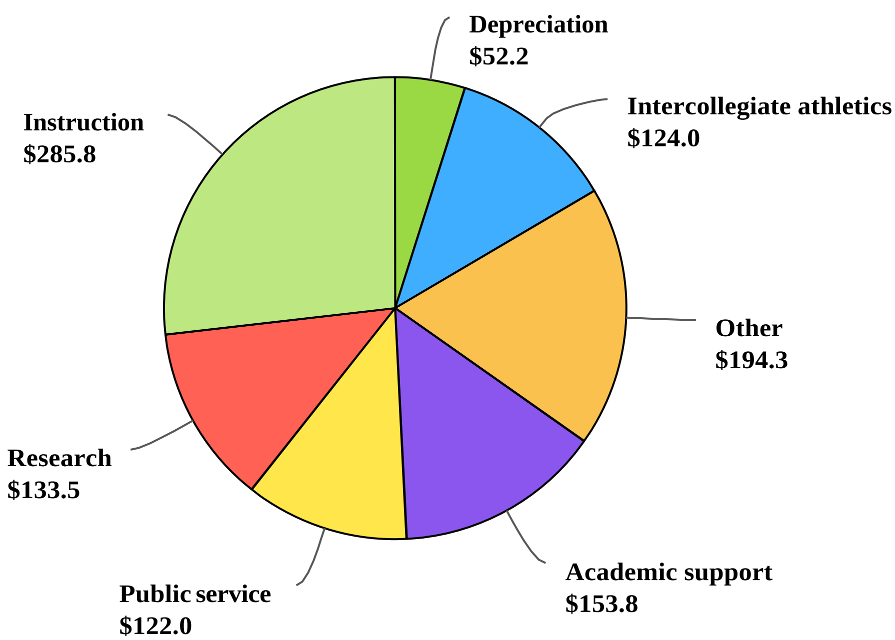
Operating Expenses

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2020 and 2019 (in millions) are summarized below:

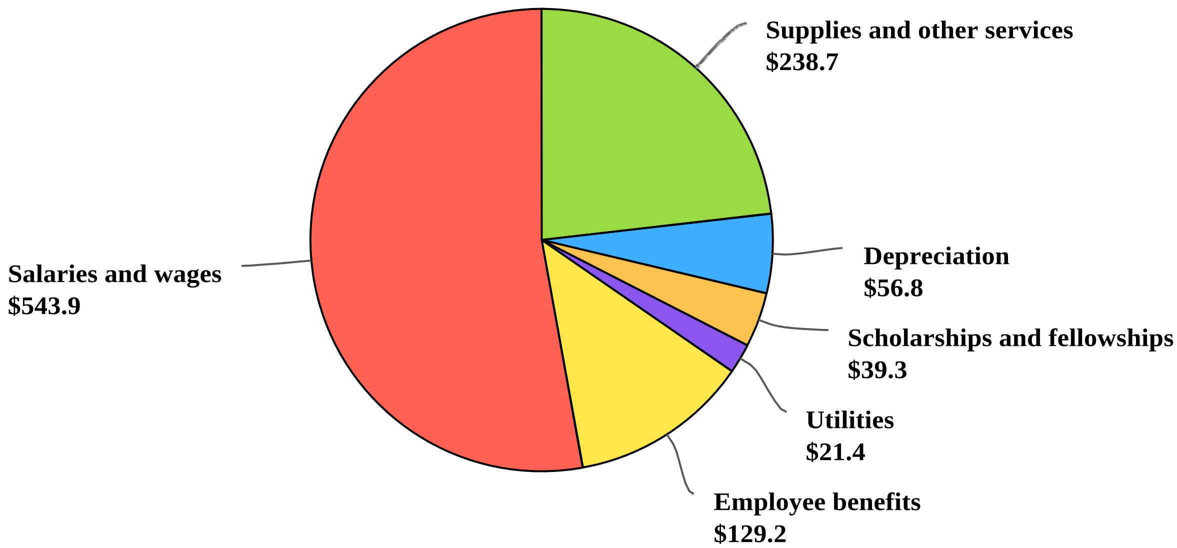
Operating Expenses by Functional Classification
Year Ended June 30, 2020



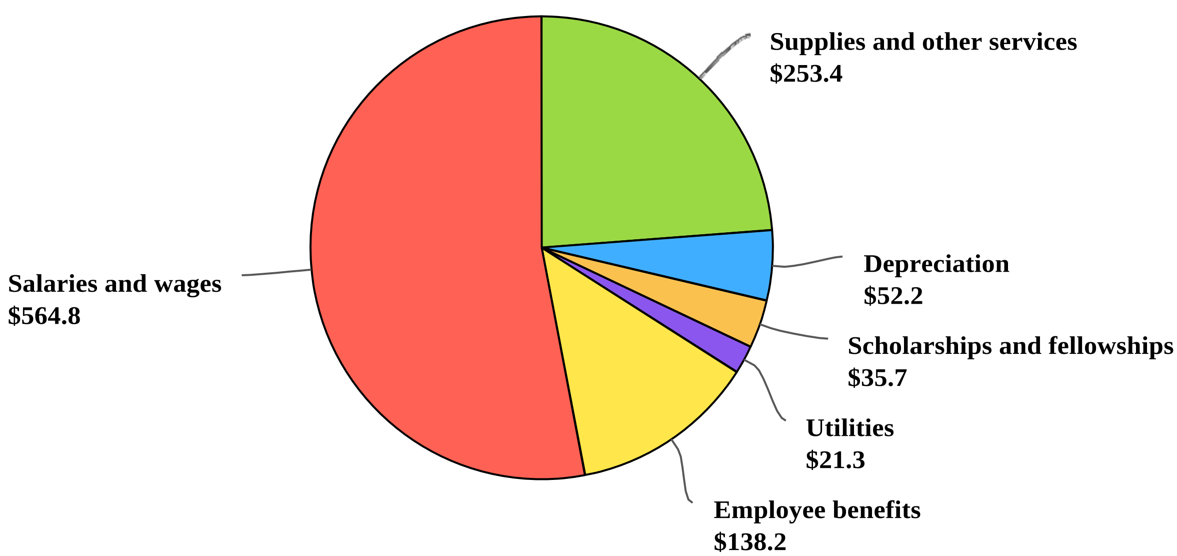
Operating Expenses by Functional Classification
Year Ended June 30, 2019



Operating Expenses by Natural Classification
Year Ended June 30, 2020



Operating Expenses by Natural Classification
Year Ended June 30, 2019



Operating expenses were $1.03 billion and $1.07 billion and exceeded operating revenues by $218.9 million and $296.3 million for the years ended June 30, 2020 and 2019, respectively. In fiscal 2020, operating expenses decreased $36.2 million or 3%. Among functional classifications, the most significant decreases were in intercollegiate athletics of $21.6 million, academic support of $10.2 million, and instruction of $12.3 million. Across the University, cost saving measures were enacted in response to the Pandemic. Non-critical maintenance and purchases were put on hold and resources diverted to converting the University's campuses to comply with emerging safety standards. The most significant savings were in salary and benefit expenses of $29.8 million due to temporary salary cuts, furloughs and reduction in retirement benefits.

Operating expenses increased $32.2 million in fiscal year 2019 over fiscal year 2018. The increase in academic support of $13.7 million was for the enhancement of student learning and services. The increase in intercollegiate athletics of $20.8 million was 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.

Nonoperating Revenues (Expenses)

Nonoperating revenue and expenses, net, decreased $48.7 million in fiscal year 2020. A reduction in capital appropriations and appropriations and gifts of $49.1 accounts for the decrease. Revenues from nonexchange grants and contracts contributed an increase of $6.3 million along with an increase in gifts of $8.1 million. These gains were offset by decreased contributions from the Foundation of $11.6 million based on University spending of gift and endowment earnings.

The gain on acquisition of $132.4 million is for hospital buildings and equipment transferred to the University and is a one-time transaction.

In fiscal year 2019, net nonoperating revenues and other revenues increased by $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.

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, 2020, 2019, and 2018 (in thousands) are summarized below:

Condensed Statements of Cash Flow	**2020**	**2019**	**2018**	**2020-2019 Change**	**2019-2018 Change**
Cash (Used)/provided by:					
Operating activities	$ (175,912)	$ (208,839)	$ (248,014)	$ 32,927	$ 39,175
Noncapital financing activities	249,148	256,510	305,917	(7,362)	(49,407)
Capital and related financing	217	(39,838)	(86,364)	40,055	46,526
Investing activities	11,308	(18,093)	5,740	29,401	(23,833)
Net (decrease)/increase in cash and cash equivalents	84,761	(10,260)	(22,721)	95,021	12,461
Cash and cash equivalents - beginning of year	106,395	116,655	139,376	(10,260)	(22,721)
Cash and cash equivalents - end of year	$ 191,156	$ 106,395	$ 116,655	$ 84,761	$ (10,260)

Total cash and cash equivalents increased by $84.8 million during fiscal year 2020 due to concerted efforts by the University to manage expenditures, upgrade contractual revenues and financing of a new construction project. Cash used in operations decreased by $32.9 million in fiscal year 2020 as compared to fiscal year 2019 as a result of the savings in payments to employees of $28.8 million from the intercollegiate athletic contract payouts made during fiscal year 2019 and savings generated from reduced salaries and furloughs in the last quarter of fiscal year 2020. Clinical and contractual operations increased cash flow by $24.7 million in fiscal year 2020 by executing contracts for pediatric operations and hospital operations that maximized profitability. These gains were offset by increased payments to suppliers, vendors and contractors of $17.8 million. This is due mainly to the reduction in the balance in accounts payable as of June 30, 2020.

Cash provided by noncapital financing activities decreased $7.4 million, providing $249.1 million in fiscal year 2020 as compared to $256.5 million in fiscal year 2019. The decrease represents a net decrease in gift and contribution revenue to the University. Gift revenue from athletics pledges and donations increased by $19.4 million while contributions from the Foundation decreased $27.7 million. Contributions from the Foundation are based on reimbursements of spending by the University of endowment earnings and gifts from donors.

The University consumed $0.2 million in cash for capital and related financing, $40.1 million less than prior year. Capital assets constructed or purchased decreased by $35.1 million and is directly offset by reductions of capital appropriations and gifts of $38.2 million. Proceeds from the issuance of bonds for construction of a dormitory off set the principle and interest payments disbursed during the year.

Investing activities provided $11.3 million in cash during fiscal year 2020, $29.4 million greater than fiscal 2019. The net increase is a result of proceeds from maturing investments greater than reinvested funds used to purchase investments, totaling $8.6 million, supplemented by cash from investment earnings totaling $2.7 million.

Total cash and cash equivalents decreased by $10.2 million in fiscal year 2019 as compared to fiscal year 2018. Cash used by operating activities decreased $39.2 million due to additional revenues in clinical services for academic program support of $10.0 million received from an affiliate and $15.1 million received from an affiliate for mission support, intercollegiate athletics provided an additional $9.6 million in cash from an additional football home game, contract revenues and hosting the NCAA Men's Basketball South Regionals. 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 from gifts relates to the collection of pledges of the Association. Cash consumed by capital and financing activities was reduced by $46.5 million in fiscal year 2019 as compared to fiscal year 2018. 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.

Capital Asset Activities

A critical factor in sustaining the quality of the University's academic and research programs and residential life is the development and maintenance of its capital assets. The University continues to invest in new and renovate facilities to meet the needs of students, faculty and staff. As infrastructure and building projects were completed or acquired during the year, the University's capital assets grew by $158.9 million. The most significant or these projects and acquisitions is listed below (in millions):

Project	Capitalized Cost
Acquisition of Hospital Buildings	$ 132.4

Significant projects currently in the campus construction plan, in progress or in planning stages (in millions):

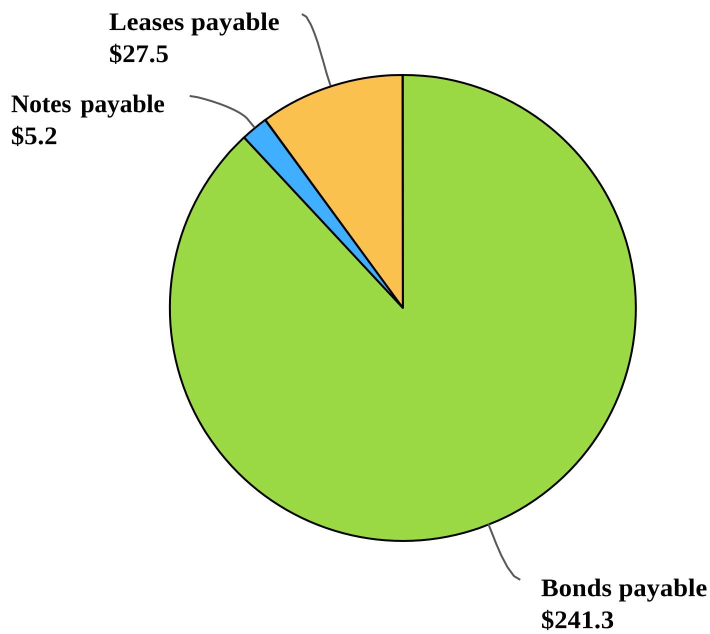
Project	Estimated Budget
Construct New Residential Housing	$ 90.0
Renovate School of Medicine Building	42.0
Replace HVAC various buildings	25.0
Purchase next generation ERP Support System	20.0
Biocontainment Laboratory Pressurization Upgrade	10.8
Brandis Corridor Improvements	3.1
3rd Street Improvements	2.2
Renovate Ville Grill	2.1

Debt and Financing Activities

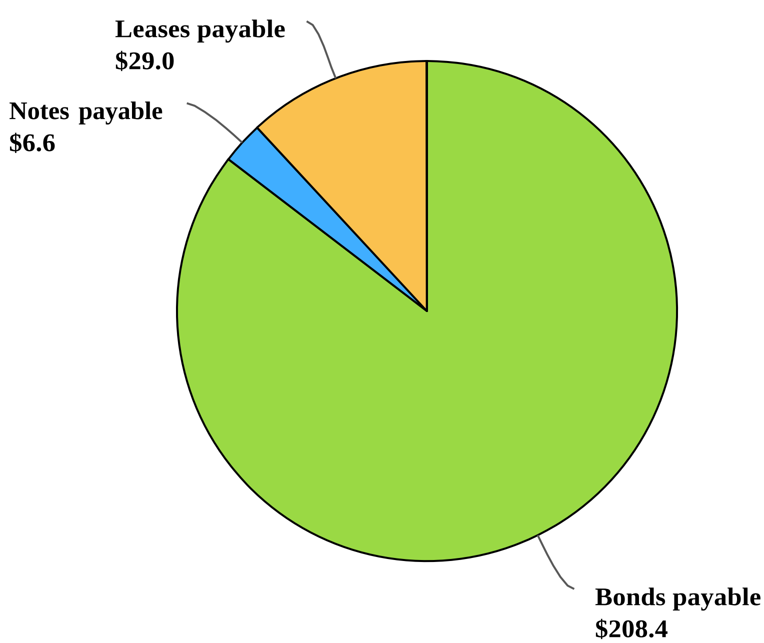
As of June 30, 2020, the University had outstanding $288.3 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to $259.3 million as of June 30, 2019 The $29.0 million increase represents the net of normal pay down of long-term bonds offset by issuances of master lease obligations totaling $3.0 million to fund purchases of equipment and capital assets and a bond issuance of $45.3 million to finance construction of a dormitory.

Graphic illustrations of bonds, notes and leases payable for the years ended June 30, 2020 and 2019 (in millions) are summarized below:

Bonds, Notes, and Leases Payable
Year Ended June 30, 2020



Bonds, Notes, and Leases Payable
Year Ended June 30, 2019



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

Economic Factors That May Affect the Future

The impact of the COVID 19 pandemic declared in March 2020 by the World Health Organization has had a profound impact on almost all facets of the U.S. and Global economy. The University is working closely with federal, state and local governments to respond in a responsible way that minimizes the financial impact to its students, employees, and the community at large.

Senior leadership was able to successfully manage the reductions in revenue and incremental costs related to the Pandemic by taking aggressive measures that included budget cuts, pay reductions, furloughs, and reductions in retirement contributions. Despite the short notice most all classes that historically were offered in a face to face format were converted to online for the summer session minimizing the impact to tuition revenue.

Senior Leadership continues to believe that it is financially well-positioned despite the impact of COVID 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 COVID 19 pandemic will continue to have a significant impact on the University moving into fiscal year 2021. Some of the significant disruptions to revenue streams or changes to the expense base that may be impacted by the COVID 19 pandemic are as follows:

- The University may lose state appropriations from the Commonwealth of Kentucky as the state economy has been hit with extensive reductions in tax revenues related to the COVID 19 pandemic which are expected to be substantially lower until the economy recovers. General Fund revenues are expected to decline for the first time in over a decade.
- The University may lose tuition revenue if it were required to cancel face to face classes and was not able to convert the classes to an online format.
- The University may lose student housing and meal plan revenues should they need to move from face to face to an online format.
- The University may lose clinical revenues if its clinical staff are not able to meet with and treat patients.
- The University may lose research dollars in sponsored programs if its principal investigators are not able to continue research in accordance with grant and contract requirements.
- The University could suffer reductions in spend policy on endowed gifts and interest income due to significant deterioration in the financial markets.
- The University could suffer reductions Athletics revenue from reduced ticket sales and other related athletic revenue streams due to canceled games or reduced fan base allowed at events.
- The University expects COVID 19 testing, personal protective equipment and other safety measures to be an incremental cost for 2020.
- The University has moved many classes into a hybrid delivery model for the 2020/2021 academic year which is expected to be an incremental cost for 2020.

The federal government passed a $2 trillion-dollar stimulus bill called the CARES (Coronavirus Aid, Relief and Economic Security) ACT in March 2020 to blunt the downturn set in motion by the COVID 19 pandemic. The higher education sector, including the University, was a beneficiary of this stimulus package. Congress is working on bi-partisan legislation for additional relief during the 2021 fiscal year.

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, 2020 and 2019

	University of Louisville 2020	University of Louisville 2019	Component Units 2020	Component Units 2019
ASSETS				
Current Assets				
Cash and cash equivalents	$ 142,291	$ 104,243	$ 339,461	$ 90,470
Short-term investments	6,574	6,517	115,178	144,388
Deposit with bond trustee and escrow agent	6,257	6,208	—	—
Loans, accounts and contributions receivable, net	72,138	77,942	278,966	148,119
Due from affiliates	14,889	25,198	30,372	45,199
Inventories	5,445	3,932	30,670	14,462
Investments held with University of Louisville Foundation, Inc.	5,460	11,236	—	—
Other assets	8,038	7,059	46,416	14,917
Total current assets	261,092	242,335	841,063	457,555
Noncurrent Assets				
Restricted cash and cash equivalents	48,865	2,152	—	—
Deposit with bond trustee and escrow agent	10,976	9,761	—	—
Loans, accounts and contributions receivable, net	50,340	61,098	24,193	—
Due from affiliates	40,237	9,244	—	—
Other long-term investments	14,166	17,271	775,575	822,975
Other long-term assets	260	—	132,538	128,386
Capital assets, net	1,078,175	976,355	416,728	341,053
Total noncurrent assets	1,243,019	1,075,881	1,349,034	1,292,414
Total assets	1,504,111	1,318,216	2,190,097	1,749,969
DEFERRED OUTFLOWS OF RESOURCES	13,687	8,080	—	—
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 1,517,798	$ 1,326,296	$ 2,190,097	$ 1,749,969

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
June 30, 2020 and 2019

	University of Louisville 2020	University of Louisville 2019	Component Units 2020	Component Units 2019
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$ 88,551	$ 103,575	$ 261,030	$ 224,178
Line of credit	—	—	—	4,000
Unearned compensation and wages payable	2,699	2,920	76,413	28,726
Advances	47,853	53,564	69,627	312
Due to affiliate	—	—	26,157	18,880
Bonds and notes payable	24,216	23,311	5,063	69,790
Total current liabilities	163,319	183,370	438,290	345,886
Noncurrent Liabilities				
Due to University of Louisville Foundation, Inc.	—	316	—	—
Note payable to University of Louisville Foundation, Inc.	1,000	1,000	—	—
Unearned compensation and wages payable	2,549	5,250	—	—
Deposits	1,061	1,646	—	—
Advances	6,991	4,899	—	—
Amounts due to federal government for student loan programs	17,145	15,944	—	—
Due to affiliate	—	—	39,895	20,907
Other long-term liabilities	80,369	64,757	134,274	24,452
Bonds and notes payable	264,089	235,953	151,259	129,573
Total noncurrent liabilities	373,204	329,765	325,428	174,932
Total liabilities	536,523	513,135	763,718	520,818
DEFERRED INFLOWS OF RESOURCES	65,829	82,129	—	—
NET POSITION				
Net investment in capital assets	825,433	716,400	8,656	98,329
Restricted:				
Nonexpendable	1,349	4,710	—	—
Expendable	84,417	79,510	765,389	752,055
Unrestricted	4,247	(69,588)	652,334	378,767
Total net position	915,446	731,032	1,426,379	1,229,151
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 1,517,798	$ 1,326,296	$ 2,190,097	$ 1,749,969

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020 and 2019
(in thousands)

	University of Louisville		Component Units	
OPERATING REVENUES	**2020**	**2019**	**2020**	**2019**
Student tuition and fees, net of scholarship allowance of $98,618 in 2020 and $96,059 in 2019	$ 227,233	$ 223,173	$ —	$ —
Clinical services and practice plan	322,989	287,393	—	53,123
Patient service revenue, net provision of bad debts of $65,996 in 2020 and $43,402 in 2019	—	—	968,169	675,207
Federal grants and contracts	76,940	79,191	—	—
State and local grants and contracts	10,261	11,368	—	—
Nongovernmental grants and contracts	22,198	15,281	—	—
Sales and services of educational departments	2,236	5,727	—	—
Facilities and administrative cost recoveries	28,452	28,248	—	—
Auxiliary enterprises, net of discount of $2,085 in 2020 and $2,177 in 2019	15,041	16,242	—	—
Intercollegiate athletics	86,559	86,826	—	—
Hospital revenue	—	—	—	—
Other operating revenue	18,541	15,830	165,502	131,126
Total operating revenue	810,450	769,279	1,133,671	859,456
OPERATING EXPENSES				
Instruction	273,508	285,802	—	—
Research	138,322	133,464	—	—
Public service	116,147	122,032	—	—
Academic support	143,595	153,787	—	—
Student services	29,898	28,805	—	—
Institutional support	73,165	75,566	1,047,762	772,011
Operation and maintenance of plant	51,244	48,983	—	—
Scholarships and fellowships	37,259	32,527	—	—
Auxiliary enterprises	6,969	8,411	—	—
Intercollegiate athletics	102,403	123,983	—	—
Depreciation and amortization	56,840	52,213	34,155	31,670
Contributions to affiliates	—	—	66,885	79,784
Total operating expense	1,029,350	1,065,573	1,148,802	883,465
Operating loss	(218,900)	(296,294)	(15,131)	(24,009)

See notes to 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
For the Years Ended June 30, 2020 and 2019
(in thousands)

	University of Louisville		Component Units	
	2020	2019	2020	2019
NONOPERATING REVENUES (EXPENSES)				
State appropriations	$ 128,712	$ 128,930	$ —	$ —
Gifts and donations	35,684	27,554	58,877	38,926
Nonexchange grants and contracts	52,494	46,179	—	—
Contributions from University of Louisville Foundation, Inc.	49,770	61,324	—	—
Investment income	2,655	3,714	4,030	67,414
Realized and unrealized gain on investments	(2)	477	—	—
Interest on capital asset-related debt	(10,364)	(10,457)	—	(617)
Noncontrolling interest	—	—	—	(1,290)
Other nonoperating revenue (expense)	2,862	3,769	(3,808)	(15,985)
Net nonoperating revenue	261,811	261,490	59,099	88,448
Income (Loss) before other revenue, expense, gains and losses	42,911	(34,804)	43,968	64,439
Capital appropriations	3,453	22,131	—	—
Capital gifts	5,637	36,016	—	—
Total other revenue	9,090	58,147	—	—
Increase (decrease) in net position	52,001	23,343	43,968	64,439
Special Items				
Transfer of operations	132,413	—	146,506	—
Increase (decrease) in net position after special items	184,414	23,343	190,474	64,439
NET POSITION				
Net position - beginning of year	731,032	707,689	967,388	1,164,712
Transfer of net assets	—	—	268,517	—
Net position - end of year	$ 915,446	$ 731,032	$1,426,379	$ 1,229,151

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 222,436	$ 221,810
Clinical services and practice plan	318,122	293,419
Grants and contracts	116,258	112,491
Sales and services of educational departments	2,236	5,522
Payments to suppliers, vendors and contractors	(245,588)	(227,768)
Payments for utilities	(21,799)	(21,624)
Payments to employees	(546,504)	(575,310)
Payments for benefits	(126,203)	(127,956)
Payments for scholarships and fellowships	(41,518)	(35,662)
Loans issued to students	148	1,122
Auxiliary enterprises	15,196	13,840
Facilities and administrative cost recoveries	28,452	28,248
Intercollegiate athletics	80,220	87,995
Other receipts	22,632	15,034
Net cash used by operating activities	(175,912)	(208,839)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	128,712	128,939
Gifts	37,532	18,101
Nonexchange grants and contracts	52,494	46,179
Contributions from related entities	46,866	74,613
Due from affiliates	(19,316)	(14,145)
Other noncapital financing activities	2,860	2,823
Net cash provided by noncapital financing activities	249,148	256,510
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	3,453	23,396
Capital gifts received	4,563	22,840
Purchases of capital assets	(25,703)	(60,769)
Proceeds from issuance of bonds and notes payables	50,070	8,808
Payment of issuance costs	1,166	—
Principal paid on bonds and notes payable	(20,164)	(15,678)
Interest paid on bonds and notes payable	(11,969)	(10,676)
Deposits with bond trustee and escrow agent	(1,280)	(7,759)
Other capital financing	81	—
Net cash provided (used) by capital and related financing activities	217	(39,838)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	165,849	10,095
Purchase of investments	(157,211)	(32,129)
Interest on investments	2,670	3,941
Net cash provided/(used) by investing activities	11,308	(18,093)
Net increase/(decrease) in cash and cash equivalents	84,761	(10,260)
Cash and cash equivalents - beginning of year	106,395	116,655
Cash and cash equivalents - end of year	$ 191,156	$ 106,395

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019
(in thousands)

	2020	2019
RECONCILIATION OF NET OPERATING LOSS TO NET CASH		
USED BY OPERATING ACTIVITIES		
Operating loss	$ (218,900)	$ (296,294)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	56,840	52,213
Loss on equipment disposals	205	518
Change in assets and liabilities:		
Loans, accounts and contributions receivable	16,561	3,621
Investments held with University of Louisville Foundation, Inc.	—	2,505
Inventories	(1,513)	(17)
Other assets	(966)	3,078
Other long-term assets	201	63
Accounts payable and accrued liabilities	(13,285)	23,417
Advances	(5,466)	420
Deposits	(609)	(11)
Due from Affiliates	1,222	—
Unearned compensation and wages payable	(2,924)	5,650
Other long-term liabilities	15,530	(24,032)
Deferred outflows of resources	(6,509)	558
Deferred inflows of resources	(16,300)	19,472
Net cash used by operating activities	$ (175,912)	$ (208,839)
Non cash transactions:		
Capital lease additions	$ 2,618	$ 334
Accrued liabilities for capital asset additions	$ 1,600	$ 2,519
Assets acquired through business combination	$ 132,413	$ —
Gifts of capital assets	$ 1,075	$ 21,077
Loss on disposal of assets	$ 205	$ 515
Amortization of bond premium and discount	$ 774	$ 817

See notes to financial statements

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

The University of Louisville (University) is a state supported metropolitan research university located in Louisville, Kentucky 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.

a. Basis of Presentation

As required by generally accepted accounting principles (GAAP) the financial reporting entity includes the University and all of its component units. The University's component units are either blended or discretely presented in the University's financial statements. The blended component units, although legally separate, are, in substance, part of the University's operations and, therefore, are reported as if they were part of the University. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their separate legal status.

Blended Component Units

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.

Discretely Presented Component Units

These legally separate University associated entities have been deemed component units because of the nature and significance of their relationship with the University. All discretely presented component units have separate and independent governing boards. The University's Board of Trustees does not provide governance or administrative oversight for the discretely presented component units. The component units combined financial information is included in the accompanying financial statements. Condensed financial statement for each component unit are disclosed in Note 21.

University of Louisville Foundation, Inc. (Foundation) - The Foundation was established to receive funds derived from gifts and other sources and invest these funds on behalf of the University. The foundation holds and manages the endowment of the University. Earnings from endowed assets along with gifts are transferred to the University upon satisfaction of donor restrictions.

University of Louisville Real Estate Foundation (ULREF) - The ULREF was formed to acquire, maintain and manage real and personal property for the benefit of the University.

UL Health, Inc. (UL Health) - UL Health is a fully integrated regional health system established to manage and operate the University's hospital assets and clinical activities of the Health Sciences Center. During the fiscal year ending June 30, 2020, UL Health became the parent corporation of two previously separately presented component units:

University of Louisville Physicians, Inc. (ULP) - The ULP is the corporate entity that houses the clinical practices of the faculty of the University's School of Medicine.

University Medical Center, Inc. (UMC) - The UMC was established to lease and operate the acute-care teaching hospital and related medical facilities.

The financial statement presentation required by GAAP 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 and escrow agent classified as short term were $6.3 million and $6.2 million as of June 30, 2020 and June 30, 2019, respectively, related to lease arrangements. These deposits are invested in money market funds. Deposits with bond trustee and escrow agent classified as long term consist of cash and investments in governmental securities and repurchase agreements of $11.0 million and $9.8 million as of June 30, 2020 and June 30, 2019, respectively, related to various bonds. Investments in governmental securities are stated at market value. Repurchase agreements are stated at cost.

d. Accounts and Contributions Receivable

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, auxiliary enterprise services provided to students, faculty, staff and external entities, reimbursement of costs from external entities and related foundations, and charges for clinical services. 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 student loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was approximately $0.6 million at June 30, 2020 and 2019.

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 Association capitalized interest cost as a component of construction in progress, based on the interest cost of borrowings, net of interest earned from proceeds of the borrowings. The Association ceased capitalizing interest after this date in accordance with updated GASB guidance.

i. Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net assets that are applicable to a future reporting period and increase net asset position similar to assets. Deferred outflows of assets of $13.7 million and $8.1 million for the years ended June 30, 2020 and 2019, respectively, consist primarily of loss on bond refinancing of $4.3 million and
$5.2 million, respectively, amounts paid for other postemployment benefits of $9.3 million and $2.8 million, respectively, and fair value of a derivative instrument of $85 thousand and $4 thousand, respectively. As the derivative is considered an effective hedging instrument, changes in the fair value of the derivative are recognized as deferred outflows of resources. Deferred outflows for other postemployment benefits represent amounts paid for employee health care 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.

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. <u>Compensated Absences</u>

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. <u>Net Bond Premium</u>

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

n. <u>Deferred Inflows of Resources</u>

Deferred inflows of resources are an acquisition of net assets are applicable to a future reporting period and decrease net position similar to liabilities. Deferred inflows of resources of $65.8 million and $82.1 million for the years ended June 30, 2020 and 2019, respectively, consisted of $37.9 million and $50.0 million of service concession arrangements, respectively, and $28.0 million and $32.2 million, respectively, of postemployment benefit experience and assumption changes. Deferred inflows of resources related to service concession arrangements are contributions from providers under a food service contract, a copy center contract, and a book store contract that will be recognized into revenue over the lives of the respective contracts. Changes in the other postemployment deferred inflows will be recognized in future periods.

The University entered into multi-year arrangements for food service and dining, bookstore concessions, and copy center concessions that meet the definition of service concession arrangements under GASB accounting guidance. The impact to the Statement of Net Position as of June 30, 2020, include $37.9 million of deferred inflows of resources, $15.1 million of long-term receivables and $14.8 million of net capital assets recorded. The impact to the Statement of Net Position as of June 30, 2019, include $50.0 million of deferred inflows of resources, $25.6 million of long-term receivables and $14.5 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.

o. <u>Net Position</u>

The University's net position is summarized into four major categories as follows:

a. *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.
b. *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.
c. *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.
d. *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.

The following table includes detail of the net position balances at June 30, 2020 and 2019 (in thousands):

	2020	2019
Net investment in capital assets	$ 825,433	$ 716,400
Restricted - Nonexpendable		
Scholarships and fellowships	1,349	4,710
Restricted - Expendable		
Scholarships and fellowships	3,424	—
Research	17,981	19,535
Instruction	10,656	6,442
Public service	2,668	12,694
Academic support	598	642
Institutional support	11,136	11,850
Loans	2,937	2,819
Capital projects	13,930	4,693
Debt service	21,087	20,835
Unrestricted	4,247	(69,588)
Total net position	$ 915,446	$ 731,032

p. Revenue and Expense Classifications

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, meaning revenues are received in exchange for goods and services, such as tuition, clinical operations, grants and contracts and intercollegiate activities. With the exception of interest expense, all expense transactions are classified as operating expenses.

Nonoperating revenues – Certain significant revenues relied on for fundamental operational support of the University are mandated by GASB requirements to be recorded as nonoperating revenues. Nonoperating revenues, meaning revenues received and the University provided no goods or services, include activities such as state appropriations, capital appropriations, Pell and other grants and contracts, gifts and contributions.

q. 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.

r. Clinical Services and Practice Plan Revenue

The University has agreements with third-party payors 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 payors 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.

s. 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.

t. 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.

u. 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.

v. 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.

w. Recent Accounting Pronouncements

As of June 30, 2020, the GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*. The statement extended the effective date of multiple pronouncements by one year. There were no new pronouncements adopted by the University during the year ending June 30, 2020. The following statements will be implemented in future reporting periods.

GASB Statement No. 84, *Fiduciary Activities*. This pronouncement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 87, *Leases.* 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.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61*. This pronouncement 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 unities if the government acquires a 100% 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. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 92 *Omnibus 2020*. This pronouncement addresses activities with derivative instruments, intra- entity transfers of assets, postemployment benefit arrangements and measurement of liabilities associated with asset retirement obligations. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. As a result of global reference rate reform, the most popular interbank offered rate (IBOR), London interbank offered rate (LIBOR), is expected to cease to exist in its current form prompting governments to amend or replace financial instruments. This pronouncement addresses the accounting and financial implications that result from the replacement of an IBOR. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and availability Payment Arrangements*. The objective of the pronouncement is to improve financial reporting related to public-private and public-public partnerships and availability payment arrangements. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. This pronouncement defines subscription-based information technology and provides guidance on accounting for the resulting capital and intangible assets and associated cost. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

x. Risks and Uncertainties

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the University, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, declines in enrollment, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the University is taking appropriate actions to mitigate the negative impact. The full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

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, 2020 and 2019 are as follows (in thousands):

	2020	2019
Deposits	$ 197,413	$ 112,603
Investments		
U.S. Treasury obligations	1,006	1,011
U.S. Agencies obligations	16,072	20,095
Other government obligations	1,662	504
Repurchase agreements	10,976	9,760
Investments held with University of Louisville Foundation, Inc.	5,460	11,236
Certificates of deposit	1,044	1,024
Annuities	956	1,155
Total	$ 234,589	$ 157,388

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

	2020	2019
Cash and cash equivalents	$ 142,291	$ 104,243
Short-term investments	6,574	6,517
Deposit with bond trustee - current	6,257	6,208
Restricted cash and cash equivalents	48,865	2,152
Deposit with bond trustee - noncurrent	10,976	9,761
Investments held with University of Louisville Foundation, Inc.	5,460	11,236
Other long-term investments	14,166	17,271
Total	$ 234,589	$ 157,388

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, 2020 and 2019, the University had deposits subject to custodial credit risk as follows on the following page (in thousands):

June 30, 2020	State	Overnight Investments	Total
Deposits Collateralized with securities held by pledging financial Institution	$ —	$ 30,581	$ 30,581
Collateralized with securities held by the Commonwealth in the Commonwealth's name	47,245	—	47,245
Total	$ 47,245	$ 30,581	$ 77,826

June 30, 2019	State	Overnight Investments	Total
Deposits 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	—	47,245
Total	$ 30,818	$ 71,857	$ 102,675

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, 2020 and 2019, the University had investments subject to interest rate risk as reflected in the following schedules (in thousands):

		Maturities in years		
June 30, 2020	Total	Less than 1	1-5	6-10
U.S. Treasury obligations	$ 1,006	$ 1,006	$ —	$ —
U.S. Agencies obligations	16,072	5,063	11,009	—
Other government obligations	1,662	505	1,157	—
Repurchase agreement	10,976	—	—	10,976
Certificates of deposit	1,044	–	1,044	—
Total	$ 30,760	$ 6,574	$ 13,210	$ 10,976

			Maturities in years		
June 30, 2019	Total		Less than 1	1-5	6-10
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 agreement	9,760		—	—	9,760
Certificates of deposit	1,024		—	1,024	—
Total	$ 32,420		$ 6,544	$ 16,116	$ 9,760

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, 2020 and 2019, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

June 30, 2020	Aaa	Not Rated	Total
Annuities	$ 956	$ —	$ 956
Investment held with the University of Louisville Foundation, Inc.	—	5,460	5,460
Total	$ 956	$ 5,460	$ 6,416

June 30, 2019	Aaa	Not Rated	Total
Annuities	$ 1,155	$ —	$ 1,155
Investment held with the University of Louisville Foundation, Inc.	—	11,236	11,236
Total	$ 1,155	$ 11,236	$ 12,391

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, 2020 and 2019, 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, 2020 and 2019 is as follows:

	2020	**2019**
Investment in partnerships	48 %	55 %
Marketable alternatives	19 %	19 %
Mutual funds	16 %	11 %
Fixed income	12 %	11 %
Preferred and common stock	5 %	4 %
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, 2020 and 2019.

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 below presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements as of June 30, 2020 and 2019 (in thousands):

	Balance as of 6/30/2020	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					
U.S. Treasury obligations	$ 1,006	$ 1,006	$ —	$ —	$ —
U.S. Agency obligations	16,072	16,072	—	—	—
Other governmental obligations	1,662	—	1,662	—	—
Certificate of deposit	1,044	1,044	—	—	—
University of Louisville Foundation, Inc. investment fund	5,460	—	—	—	5,460
Investment derivative instruments					
Interest rate swap	(85)	—	(85)	—	—
Total investments measured at fair value	$ 25,159	$ 18,122	$ 1,577	$ —	$ 5,460

	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					
U.S. Treasury obligations	$ 1,011	$ 1,011	$ —	$ —	$ —
U.S. 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

a. Investments

Certificates of deposit securities and U.S. 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.

c. Investments Measured at net asset value (NAV)

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.

Investments measured at NAV (in thousands):

	Fair Value as of 6/30/2020	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 5,460	Various from any valuation day to quarterly	Various from 5 to 90 days

	Fair Value as of 6/30/2019	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

4. Loans, Accounts, and Contributions Receivable, Net

Loans, accounts, and contributions receivable, net as of June 30, 2020 and 2019 are as follows on the following page (in thousands):

	2020		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 48,956	$ (20,419)	$ 28,537
Patient care	33,977	(20,326)	13,651
Contributions receivable	34,462	(5,896)	28,566
Sponsored agreements	28,781	(1,764)	27,017
Trade receivables	7,719	—	7,719
Other	18,387	—	18,387
Total	$ 172,282	$ (48,405)	123,877
Less discount			(1,399)
Current portion			72,138
Noncurrent portion			$ 50,340

	2019		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 42,586	$ (16,961)	$ 25,625
Patient care	56,221	(36,621)	19,600
Contributions receivable	34,873	(4,748)	30,125
Sponsored agreements	30,151	(1,763)	28,388
Trade receivables	6,833	—	6,833
Other	29,662	(4)	29,658
Total	$ 200,326	$ (60,097)	140,229
Less discount			(1,189)
Current portion			77,942
Noncurrent portion			$ 61,098

Contributions receivable consist primarily of charitable gifts totaling $34.5 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 0.0% to 5.2% as of June 30, 2020.

Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2020 and June 30, 2019.

Contributions receivable as of June 30, 2020 and 2019 are due to be received as follows (in thousands):

	2020	2019
Less than one year	$ 10,731	$ 11,059
One to three years	9,070	9,636
Greater than three years	14,661	14,178
Subtotal	34,462	34,873
Less discount	(1,399)	(1,189)
Less allowance	(5,896)	(4,748)
Net contributions receivable	$ 27,167	$ 28,936

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 $4.2 million and $1.4 million to the University as of June 30, 2020 and 2019, respectively, to fund spending of these donations and earnings and is recorded in current due from affiliate.

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 $1.6 million and $3.6 million of the loan during the years ended June 30, 2020 and June 30, 2019, respectively. The outstanding note balance is $1.1 million in current due from affiliate as of June 30, 2020.

The University manages ULREF 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. No balances for rents collected were due or reimbursement of expenses owed as of June 30, 2020. The ULREF has executed ground leases with the University for each of the managed dorms. The ground lease stipulates an annual rent based on a calculation of net available cash flow for each dorm. For the year ending June 30, 2020, the annual rents are $0.3 million and is a receivable from ULREF in current Due from Affiliates. For the year ending June 30, 2019, there were no rents earned.

c. University of Louisville Physicians, Inc. (ULP)

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 $0.9 million of the outstanding balance during the years ended June 30, 2020 and 2019, respectively.

The outstanding note balance is $4.0 million as of June 30, 2020 with $0.8 million in current due from affiliate and the remaining $3.2 million in noncurrent due from affiliate.

d. University Medical Center, Inc. (UMC)

KentuckyOne Healthcare, Inc. in connection with 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 $4.9 million and $9.9 million of the outstanding balance during the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the balance of the receivable was $4.2 million and $9.1 million, respectively. The full balance as of June 30, 2020 is recorded as a current due from affiliate.

e. UL Health, Inc. (UL Health)

UL Health became the wholly owning member of UMC and ULP during the year ending June 30, 2020. In relation to the academic and programmatic support provided by UMC, UL Health, Inc. to the Research Foundation, UL Health, Inc.'s Board of Directors approved additional academic mission support of $37 million. The $37 million is reported in Noncurrent due from Affiliates in the Statement of Net Position and is to be paid to the Research Foundation over a three-year period.

6. Capital Assets, Net

Capital assets as of June 30, 2020 and 2019 are as follows (in thousands):

	2020				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 44,677	$ 13,748	$ —	$ —	$ 58,425
Rare books	47,958	424	—	—	48,382
Construction in progress	211	8,658	—	(3,636)	5,233
Subtotal	92,846	22,830	—	(3,636)	112,040
Cost - Depreciable					
Buildings	1,371,919	122,566	(59)	3,636	1,498,062
Infrastructure	53,907	—	—	—	53,907
Land improvements	20,819	652	—	—	21,471
Equipment	218,477	11,832	(3,809)	—	226,500
Leasehold improvements	2,117	—	—	—	2,117
Library materials	175,126	985	—	—	176,111
Subtotal	1,842,365	136,035	(3,868)	3,636	1,978,168
Total capital assets-cost	1,935,211	158,865	(3,868)	—	2,090,208
Accumulated depreciation					
Buildings	594,342	41,982	(55)		636,269
Infrastructure	5,692	899			6,591
Land improvements	5,278	595			5,873
Equipment	190,613	10,021	(3,608)		197,026
Leasehold improvements	1,691	64			1,755
Library materials	161,240	3,279			164,519
Total accumulated depreciation	958,856	56,840	(3,663)	—	1,012,033
Capital assets, net	$ 976,355	$ 102,025	$ (205)	$ —	$1,078,175

	2019				
	Beginning Balance	Beginning Balance	Beginning Balance	Beginning Balance	Beginning Balance
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 depreciation	908,139	52,213	(1,496)	—	958,856
Capital assets, net	$ 971,395	$ 5,478	$ (518)	$ —	$ 976,355

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2020 and 2019 (in thousands):

	2020	2019
Salaries and benefits	$ 39,830	$ 39,524
Payroll taxes	21,757	18,194
Construction	1,600	1,927
Accrued interest	3,206	3,415
Other	22,158	40,515
Total	$ 88,551	$ 103,575

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, 2020 and 2019. The outstanding balance was approximately $1.0 million for each of the years ended June 30, 2020 and 2019.

In July 2001, the Association obtained a $316 thousand unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball offices. The loan balance was fully repaid as of June 30, 2020 and approximately $316 thousand was outstanding as of June 30, 2019.

9. Bonds, Notes, and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2020 and 2019 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2020	2019
General Receipts Bonds:				
Series B of 2010	5.5%	2028	$ 20,942	$ 20,942
Series A of 2011	4.0% to 5.0%	2032	23,845	25,265
Series A of 2012	5.0%	2023	4,675	6,090
Series A of 2016	2.0% to 5.0%	2036	11,080	11,855
Series B of 2016	3.0% to 5.0%	2028	19,450	21,560
Series C of 2016	2.0% to 4.0%	2029	47,590	51,300
Series D of 2016	3.0% to 5.0%	2036	45,295	45,295
Series E of 2016	2.2% to 3.0%	2023	3,290	4,355
Series F of 2016	5.0%	2028	19,790	21,766
Series A of 2020	2.0% to 5.0%	2051	45,320	—
Notes payable	1.3% to 3.6%	2022 to 2026	5,156	6,613
Master lease obligations	1.8% to 4.1%	2021 to 2030	15,901	15,407
Energy leases	2.6% to 4.8%	2033	11,275	13,283
Capital lease obligations	2.0% to 10.7%	2021	367	336
Total long-term debt			273,976	244,067
Net unamortized premium			14,329	15,197
Long-term debt, net			$ 288,305	$ 259,264

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

	2020					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 208,428	$ 45,320	$ (12,471)	$ 241,277	$ 14,875	$ 226,402
Notes payable	6,613	1,750	(3,207)	5,156	2,372	2,784
Draws on master lease	15,407	2,618	(2,124)	15,901	2,446	13,455
Energy leases	13,283	—	(2,008)	11,275	2,097	9,178
Capital leases	336	382	(351)	367	250	117
Total	244,067	50,070	(20,161)	273,976	22,040	251,936
Less amortized net (discount)/ premium	15,197	1,435	(2,303)	14,329	2,176	12,153
Net long-term debt	$ 259,264	$ 51,505	$ (22,464)	$ 288,305	$ 24,216	$ 264,089

	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	—	(3,013)	6,613	2,957	3,656
Draws on master lease	7,200	8,808	(601)	15,407	2,123	13,284
Energy leases	15,204	—	(1,921)	13,283	2,007	11,276
Capital leases	601	334	(599)	336	254	82
Total	253,613	9,142	(18,688)	244,067	21,011	223,056
Less amortized net (discount)/ premium	17,645	—	(2,448)	15,197	2,300	12,897
Net long-term debt	$ 271,258	$ 9,142	$ (21,136)	$ 259,264	$ 23,311	$ 235,953

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
2021	$ 22,040	$ 10,598	$ 32,638
2022	21,975	10,267	32,242
2023	22,181	9,480	31,661
2024	18,667	8,556	27,223
2025	17,010	7,830	24,840
2026-2030	93,748	25,326	119,074
2031-2035	41,820	10,032	51,852
2036-2040	14,620	3,633	18,253
2041-2045	9,180	2,321	11,501
2046-2050	10,465	1,042	11,507
2051 and thereafter	2,270	31	2,301
Total	$ 273,976	$ 89,116	$ 363,092

The University has capitalized leased equipment with a net book value of $0.9 million and $0.4 million as of June 30, 2020 and 2019, 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 bond debt is $326.2 million, with annual requirements ranging from $2.3 million in 2037 to $38.0 million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were $545.0 million and $543.3 million, respectively.

As of June 30, 2020 and 2019, investments at fair value totaling approximately $17.2 million and $16.0 million, respectively, for retirement of indebtedness funds have been deposited with the bond trustees and escrow agents as required under the various bond indentures and capital lease agreements.

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

In December 2010, the University issued $20.9 million of University of Louisville, General Receipts Bonds, 2010 Series B at a total interest cost of 1.8%, 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 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. 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 67% 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. Final maturity of the bond is September 1, 2027.

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.

On March 13, 2020, the University entered into an agreement with a financial institution to sell and deliver bonds with a par value of $21.4 million and an interest rate of 1.55%, on June 4, 2021. The proceeds will be used to refund the outstanding General Receipts Bonds, 2011 Series A.

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). Final maturity on the 2012 Bonds is March 1, 2023.

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). Final maturity on the 2016 Series A Bonds is March 1, 2036.

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 used to retire the General Receipts Bonds 2007 Series A. Final maturity on the 2016 Series B bonds is September 1, 2027.

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 used to retire General Receipts Bonds 2008 Series A. Final maturity on the 2016 Series C Bonds is September 1, 2028.

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 used to retire the Metro Government Mortgage Revenue Bonds, Series 2008
B. Final maturity on the 2016 Series F Bonds is March 1, 2028.

University of Louisville General Receipts Bonds, 2020 Series A

In June 2020, the University issued $45.3 million of University of Louisville, General Receipts Bonds, 2020 Series A at a total interest cost of 2.7%. The bond proceeds together with an issuance premium of $1.4 million will be used to finance a new 452 bed residence hall, including the construction, installation, equipping of the dormitory, and payment of interest through the construction period. Final maturity of the bonds is September 1, 2050.

Notes 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). 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, four-year term loan with a variable interest rate of the daily one month LIBOR rate plus 100 basis points. 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 $3.7 million and $6.6 million as of June 30, 2020 and 2019, respectively.

In July 2019, the Association entered into a $1.8 million note with a bank. 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 annual installments of $250,000 commencing on June 30, 2020. The fixed interest rate on the term note is 3.6%. The balance of the term loan was $1.5 million as of June 30, 2020.

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 $6.7 million and $8.4 million as of June 30, 2020 and 2019, 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 $4.6 million and $4.9 million as of June 30, 2020 and 2019, 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. During the year ending June 2020, the University entered into four new draws for totaling $2.6 million. The lessor receives an exclusive security interest in any and all equipment acquired. The leases specify as events of default failure to pay lease payments 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 draws have implied interest rates ranging from 1.8% to 4.1% and a term ending 2028. The individual draws on the master lease have differing terms ranging from four to ten years. The balance of all draws was $15.9 million and $15.4 million as of June 30, 2020 and 2019, respectively.

Lines of Credit

The University received a line of credit with a financial institution in the form of a revenue anticipation note on July 1, 2019 in the amount of $50 million with a maturity date of June 30, 2020. Advances on the line of credit bear interest at the daily LIBOR plus 1.25%. No draws were made from the available credit through its expiration. The University renewed the line of credit on July 1, 2020 with a maturity date of June 30, 2021 with substantially the same terms as the original line of credit.

10. Derivative Financial Instruments

a. Summary

At June 30, 2020, the Association has the following derivative instruments outstanding (in thousands):

Type	Objective	Notional Amount		Effective Date	Maturity Date	Terms	Fair Value	
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Term Loan	$	15,000	06/28/13	06/30/22	Pay 2.9%; receive LIBOR +1.14%	$	(85)

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 University's statements of net position. For the year ended June 30, 2020, the decrease in fair value of the Interest Rate Swap was approximately $81 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 University's credit exposure to the counterparty as of June 30, 2020. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the University has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2020, 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 University'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 University does not have a formally adopted policy related to interest rate risk related to derivative instruments.

d. Termination Risk

The University 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 University is the defaulting party, the University would be liable for the losses, if any, of the counterparty.

11. Other Liabilities

Other liabilities of the University are summarized at June 30, 2020 and 2019 (in thousands):

	2020					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Unearned compensation and wages payable	$ 8,170	$ 6,978	$ (9,900)	$ 5,248	$ 2,699	$ 2,549
Deposits	1,646	2,485	(3,070)	1,061	—	1,061
Advances	58,463	432,896	(436,515)	54,844	47,853	6,991
Amounts due federal government for student loan program	15,944	9,643	(8,442)	17,145	—	17,145
Other postemployment benefits	64,730	12,629	(3,120)	74,239	—	74,239
Other long-term liabilities	28	8,207	(2,105)	6,130	—	6,130
Total	$ 148,981	$ 472,838	$ (463,152)	$ 158,667	$ 50,552	$ 108,115

	2019					
	Beginning Balance (as restated)	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
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	$ 166,619	$ 17,845	$ (35,483)	$ 148,981	$ 56,484	$ 92,497

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 2020. 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, 2020 and 2019, respectively, was approximately $61.5 million and $57.6 million, including $5.3 million and $5.2 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

The following table reconciles the claims liability for the fiscal years ended June 30, 2020, June 30, 2019, and June 30, 2018:

Fiscal year ended June 30,	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2020	$ 5,189	$ 61,615	$ (61,517)	$ 5,287
2019	4,699	58,062	(57,572)	5,189
2018	4,277	62,383	(61,961)	4,699

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2020 and 2019 (in thousands):

	2020	2019
Salaries and wages	$ 543,946	$ 564,801
Employee benefits	129,181	138,153
Utilities	21,374	21,309
Scholarships and fellowships	39,274	35,662
Depreciation	56,840	52,213
Supplies and other services	238,735	253,435
Total	$ 1,029,350	$ 1,065,573

14. Funding from CARES Act

The Federal Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020 which included funding for the Higher Education Emergency Relief Fund (HEERF). These funds were awarded to institutions of higher education in two equal allotments; institutional aid to provide support for pivoting instruction to online delivery, and a student portion to provide emergency financial aid grants to students. The University received an allocation of $6.2 million in each category. As of June 30, 2020, the University has expended $3.6 million in cost related to moving instructional activities to an online delivery, drew $2.8 million to fund the cost, and recorded a receivable of $0.8 million. The University expended $6.0 million for emergency student grants and drew $6.0 million to fund the grants. These revenues are included in the Nonoperating revenue (expenses) and expenses are reported in institutional and scholarship operating expense section of the Statements of Revenues, Expenses, and Changes in Net Position.

15. 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. The plan requires three years of continuous service for employees to vest in employer contributions.

From Plan inception through April 30, 2020, eligible employees not contributing to the Retirement Plan were entitled to a 7.5% of base salary contribution on their behalf from the University and an additional match of 2.5% employee contributions. The University amended the Retirement Plan during the year and discontinued base salary and matching contributions from May 1, 2020 through July 30, 2020. Beginning August 1, 2020, base salary and matching contributions were reinstated with an amendment to the plan where eligible employees not contributing to the Retirement Plan are entitled to a 2.5% of base salary contribution and an additional match of 2.5% employee contributions.

Other information relating to this plan for the years ended June 30, 2020 and 2019 is presented as follows (in thousands):

	2020	2019
Total University payroll	$ 552,110	$ 578,682
Total payroll covered by the plan	$ 531,340	$ 543,379
Employee contributions	$ 30,966	$ 31,026
University contributions	$ 33,031	$ 39,906

As of June 30, 2020 and 2019, the University had no outstanding liability related to the Retirement Plan and $50 thousand and $5 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, 2020 and June 30, 2019. 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, 2020 and 2019 are as follows (in thousands):

	2020	2019
Actuarial present value of nonvested accumulated plan benefits	$ 625	$ 828
Net assets available for benefits	$ 1,104	$ 1,204
Net pension surplus	$ (479)	$ (376)
Funded ratio	177 %	145 %

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, 2020 and 2019, for preretirement and postretirement periods.

16. Postemployment Healthcare Benefits

a. Plan Description

University and Association personnel are eligible for postemployment health care 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, 2020, the following employees were covered by the benefit terms.

Inactive plan members	1,524
Active plan members	5,578
Total	7,102

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, 2020 and 2019, the University contributed approximately \$1.9 million and \$2.8 million to the Plan, approximately 67% and 68% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$914 thousand and \$1.3 million, approximately 33% and 32% of total premiums for the years ended June 30, 2020 and 2019, respectively, through their required monthly contributions according to the schedules below:

2020

	PPO	EPO	PCA High	PCA Low
Employee	\$ 364	\$ 385	\$ 306	\$ 257
Employee and Spouse	\$ 874	\$ 924	\$ 734	\$ 617

2019

	PPO	EPO	PCA High	PCA Low
Employee	\$ 342	\$ 362	\$ 288	\$ 254
Employee and Spouse	\$ 830	\$ 870	\$ 710	\$ 570

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the years ended June 30, 2020 and 2019, the University contributed \$2.0 million and \$1.8 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, 2019. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	2.25%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	6.4% for 2019, decreasing 0.10%-0.25% per year to an ultimate rate of 4.25% for 2033 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 3.13% 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 6/30/2019	$ 64,730
Changes for the year:	
Service cost	2,437
Interest	2,497
Differences between expected and actual experience	1,923
Changes of assumptions	5,488
Benefit payments	(2,836)
Net Changes	9,509
Balances at 6/30/2020	$ 74,239

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and health care 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 (2.13)%	Discount Rate (3.13)%	1% Increase (4.13)%
Net OPEB liability	$ 83,188	$ 74,239	$ 66,721

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 health care cost trend rate that is 1 percentage point lower (5.4% for 2019, decreasing 0.10%-0.25% per year to an ultimate rate of 3.25% for 2033) or 1 percentage point higher (7.4% for 2019, decreasing 0.10%-0.25% per year to an ultimate rate of 5.25% for 2033) than the current health care cost trend rate:

	1% Decrease (5.4)%	Healthcare Cost Trend Rates (6.4)%	1% Increase (7.4)%
Net OPEB liability	$ 71,443	$ 74,239	$ 77,499

For the year ended June 30, 2020, the University recognized OPEB expense of $1.7 million. At June 30, 2020, 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	$ 1,665	$ 3,029
Changes of assumptions	4,753	24,941
Contributions made in fiscal year ending 6/30/2020 after the measurement date of 6/30/2019	2,927	—
Total	$ 9,345	$ 27,970

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

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

Year ended June 30:	
2021	$ (3,212)
2022	(3,212)
2023	(3,212)
2024	(3,212)
2025	(3,212)
Thereafter	(5,491)
Total	$ (21,551)

d. Funded Status and Funding Progress

As of June 30, 2019, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was $74.2 million and $64.7 million and there were no assets, resulting in an unfunded net OPEB liability of $74.2 million and $64.7 million as of June 30, 2020 and 2019, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $493.9 million and $450.3 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 15% and 14%, for the years ended June 30, 2020 and 2019, 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 health care 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, 2019, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual health care cost trend rate of 6.4% initially, reduced by increments to an ultimate rate of 4.25% after 13 years. The increase in the benefit obligation recognized during the fiscal year ending

June 30, 2020was due to a change in the discount rate from 3.87% as of the beginning of the reporting year to 3.13% as of the measurement date, and updates to the retirement rates, participation rates and health care trend rates. The gains on the benefit obligation recognized during the fiscal year ended June 30, 2019 was due to updates made on expected future health claims and an increase in the discount rate from 2.85% as of the beginning of the reporting year to 3.58% as of the measurement date, and changes in the assumed per capita cost.

17. Health Science Center Affiliations and Agreements

a. University Hospital Affiliation, Lease and Operating Agreements

The University has an academic affiliation agreement with UMC for the purpose of advancing the University's academic, education and research missions, providing quality patient care regardless of ability to pay and assurance that state-of-the-art facilities will be available for providing health care to patients. University employees, residents and students provide medical care utilizing UMC run facilities, in return, UMC receives revenues for the services provided. UMC provides support to the University through annual funding for salaries, benefits and insurance coverage, annual academic support and annual departmental/administrative support pursuant to the terms of the master support and services agreement. For the years ending June 30, 2020 and 2019, support totaling approximately $53.3 million and $46.1 million, respectively, was received under these agreements.

The accompanying statements of net position include approximately $2.9 million and $2.3 million in accounts receivable representing amounts due from UMC for the years ended June 30, 2020 and 2019, respectively.

During the fiscal year ending June 30, 2020, UMC became wholly owned by UL Health, Inc. UL Health, Inc. consolidated the management of existing hospital facilities and facilities obtained in acquisition with operations of UMC and ULP to optimize operations and management. UL Health, Inc.'s operating agreement with the University states that profitable operations in excess of budget will be shared equally with the University. The additional academic mission support contribution for June 30, 2020 was $37 million.

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. For the years ending June 30, 2020 and 2019, rent revenue was $7.5 million and $7.0 million, respectively. The annual rent revenue from UMC is included in clinical services and practice plan revenue.

b. Norton Healthcare

The University entered into an agreement with Norton Hospital, Inc. and Norton Children's Medical Group, LLC (collectively "NCMG") to transition the ownership and operation of the pediatric clinical practice and amend and restate certain other aspects of the pediatric academic affiliation in order to align teaching, research and patient care between the parties. The University received support of $15 million in an integration period prior to the effective date of the agreement to maintain operational activities. During the integration period the University transferred the pediatric clinical practice, conveyed the assignment and assumption of contracts and transitioned employees to NCMG. As of June 30, 2019 $10.0 million of the support was recognized and the remaining $5 million was recognized as of June 30, 2020. As of March 1, 2020, NCMG assumed all operational responsibilities for pediatric clinical activities. The Clinical Affiliation and Academic Affiliation Agreements between the University and NCMG provides for certain payments to the University for academic and departmental support of teaching and research. Total support of $16.4 million was received for academic, departmental and research support for the year ending June 30, 2020. Additionally, an assessment of 8.0% of collected revenues for professional services provided by clinical providers was received totaling $3.3 million for the year ending June 30, 2020. Other support associated with the agreements totaling $1.9 million was received for the year ending June 30, 2020.

Prior to the pediatric clinic agreements, Norton Healthcare, Inc., (Norton), the University and the Commonwealth of Kentucky agreed to a First Amendment to Lease and a First Amendment to Master Affiliation Agreement. These agreements provide for $30.0 million annual support payments from Norton to the University and its affiliates through Individual Agreements for research, academic support, residences and fellowships and related costs. In addition, the First Amendment to Master Affiliation 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 are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Funding received under the agreements for the years ended June 30, 2020 and 2019 was $26.9 million and $41.1 million, respectively. All prior agreements were superseded by the agreements with NCMG.

The accompanying statements of net position include approximately $4.0 million and $2.0 million in accounts receivable representing amounts due from Norton Hospital and Norton Children's Hospital for the years ended June 30, 2020 and 2019, respectively

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.

18. Leases

The University has entered into numerous operating lease agreements to rent or lease buildings and equipment related to academic, administrative and research facilities. These agreements are on a month-to-month basis or long-term and expire on various dates through 2069. In most cases, the University has renewal options on the leases for similar terms and reasonably expects that, in the normal course of business, the leases will be renewed or replaced with similar leases 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. Operating lease expense totaled approximately $9.4 million and $9.2 million as of June 30, 2020 and 2019, respectively.

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

For the year ending June 30,	Lease Payment Due
2021	$ 5,710
2022	4,080
2023	3,363
2024	3,343
2025	2,955
2026-2030	13,485
2031-2035	12,241
2036-2040	12,241
2041-2045	12,241
2046-2050	12,241
2051-2055	9,821
2056-2060	141
2061-2065	141
2066-2069	83
Future minimum lease payments	$ 92,086

19. Commitments and Contingencies

a. Commitments

At June 30, 2020, the University had approximately $11.4 million in encumbrances outstanding for future expenditures.

b. Litigation

The University has been named as defendant in several lawsuits, including several actions initiated by patients involving alleged malpractice. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance 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. NCAA Investigation

The University received a Notice of Allegation from the NCAA on May 4, 2020 as a result of information obtained during the federal criminal charges against former Adidas representatives, and the subsequent investigation. A number of other university athletic programs with Adidas contracts similarly received a Notice of Allegation from the NCAA. The outcome of the NCAA's allegations against the University and the 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. During the year ending June 30, 2020, PMOB sold the medical office building and repaid the loan to the financial institution, releasing the Research Foundation from the guarantee.

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. During the year ending June 30, 2020, ULP paid in full the debt with the lending institution.

20. Special Item

The University completed its acquisition of a hospital system in Louisville and adjacent communities formally known as KentuckyOne Health on November 1, 2019. The acquisition transitioned ownership of certain capital assets from KentuckyOne Health's parent company, CommonSpirit Health, to the University, and other capital assets, assignment of contracts and employees to the University's affiliate, UL Health. UL Health assumed management of all acquired assets and operations as of November 1, 2019. The University provided no consideration for the capital assets acquired in the acquisition. The University recorded these assets at the seller's carrying value, adjusted for differences in accounting practices for depreciation utilized by the seller from the University's accounting practices for depreciation. The acquisition resulted in the University recognizing a gain on asset acquisition of $132.4 million. The gain is separately presented in the Statements of Revenues, Expenses, and Changes in Net Position.

21. Component Units

a. Blended Component Units – Combined Condensed Statements

The consolidated schedules of the University, the Research Foundation and the Association as of June 30, 2020 and 2019, are on the following pages (in thousands):

Condensed Statements of Net Position	2020			
	University	**Research Foundation**	**Athletic Association**	**Total**
Current assets	$ 155,700	$ 65,896	$ 39,496	$ 261,092
Capital assets	806,275	53,536	218,364	1,078,175
Other noncurrent assets	94,134	40,777	29,933	164,844
Total assets	1,056,109	160,209	287,793	1,504,111
Deferred outflows of resources	8,824	3,364	1,499	13,687
Total assets and deferred outflows of resources	1,064,933	163,573	289,292	1,517,798
Current liabilities	94,406	26,520	42,393	163,319
Other noncurrent liabilities	323,920	26,750	22,534	373,204
Total liabilities	322,121	53,270	161,132	536,523
Deferred inflows of resources	53,933	10,069	1,827	65,829
Net investment in capital assets	637,568	53,547	134,318	825,433
Restricted-nonexpendable	—	—	1,349	1,349
Restricted-expendable	39,212	27,720	17,485	84,417
Unrestricted	12,099	18,967	(26,819)	4,247
Total net position	688,879	100,234	126,333	915,446
Total liabilities, deferred inflows of resources and net position	$ 1,064,933	$ 163,573	$ 289,292	$ 1,517,798

	2019			
	University	**Research Foundation**	**Athletic Association**	**Total**
Current assets	$ 121,506	$ 61,758	$ 59,071	$ 242,335
Capital assets	696,798	56,423	223,134	976,355
Other noncurrent assets	68,604	4,758	26,164	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
Total assets and deferred outflows of resources	892,599	123,988	309,709	1,326,296
Current liabilities	59,718	58,290	65,362	183,370
Due to University	(101,418)	—	101,418	—
Other noncurrent liabilities	287,510	23,974	18,281	329,765
Total liabilities	245,810	82,264	185,061	513,135
Deferred inflows of resources	67,579	11,905	2,645	82,129
Net investment in capital assets	526,459	56,423	133,518	716,400
Restricted - nonexpendable	—	—	4,710	4,710
Restricted - expendable	36,556	25,583	17,371	79,510
Unrestricted	16,195	(52,187)	(33,596)	(69,588)
Total net position	579,210	29,819	122,003	731,032
Total liabilities, deferred inflows of resources and net position	$ 892,599	$ 123,988	$ 309,709	$ 1,326,296

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

	2020			
	University	**Research Foundation**	**Athletic Association**	**Total**
Student tuition and fees, net	$ 227,233	$ —	$ —	$ 227,233
Clinical services and practice plan	16,410	306,579	—	322,989
Grants and contracts	(61)	109,460	—	109,399
Facilities and administrative cost recoveries	5	28,447	—	28,452
Other operating revenue	24,368	11,450	86,559	122,377
Total operating revenues	267,955	455,936	86,559	810,450
Depreciation	42,274	6,362	8,204	56,840
Other operating expenses	427,663	433,108	111,739	972,510
Total operating expenses	469,937	439,470	119,943	1,029,350
Operating gain (loss)	(201,982)	16,466	(33,384)	(218,900)
State appropriations	128,712	—	—	128,712
Gifts	(275)	2,356	33,603	35,684
Interest on capital asset-related debt	(10,108)	—	(256)	(10,364)
Other nonoperating revenues	5,936	52,555	(482)	58,009
Capital appropriations	3,453	—	—	3,453
Capital gifts	—	—	5,637	5,637
Contributions from affiliates, net	49,770	—	—	49,770
Transfers	1,750	(962)	(788)	—
Total nonoperating revenues	179,238	53,949	37,714	270,901
Special item	132,413	—	—	132,413
Change in net position	109,669	70,415	4,330	184,414
Net position - beginning of year	579,210	29,819	122,003	731,032
Net position - end of year	$ 688,879	$ 100,234	$ 126,333	$ 915,446

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
June 30, 2020 and 2019

	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	28,479	9,320	86,826	124,625
Total operating revenues	266,777	415,676	86,826	769,279
Depreciation	38,304	6,052	7,857	52,213
Other operating expenses	438,612	440,975	133,773	1,013,360
Total operating expenses	476,916	447,027	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

Condensed Statements of Cash Flows

	2020			
	University	**Research Foundation**	**Athletic Association**	**Total**
Cash (used)/provided by:				
Operating activities	$ (154,191)	$ 25,509	$ (47,230)	$ (175,912)
Noncapital financing activities	221,512	(2,006)	29,642	249,148
Capital and related financing activities	2,850	(3,532)	899	217
Investing activities	5,479	—	5,829	11,308
Net (decrease)/increase in cash and cash equivalents	75,650	19,971	(10,860)	84,761
Cash and cash equivalents, beginning of year	73,274	—	33,121	106,395
Cash and cash equivalents, end of year	$ 109,948	$ 19,971	$ 22,261	$ 191,156

	2019			
	University	**Research Foundation**	**Athletic Association**	**Total**
Cash (used)/provided by:				
Operating activities	$ (169,142)	$ (14,442)	$ (25,255)	$ (208,839)
Noncapital financing activities	225,944	19,237	11,329	256,510
Capital and related financing activities	(26,057)	(4,795)	(8,986)	(39,838)
Investing activities	(18,941)	—	848	(18,093)
Net (decrease)/increase in cash and cash equivalents	11,804	—	(22,064)	(10,260)
Cash and cash equivalents, beginning of year	61,470	—	55,185	116,655
Cash and cash equivalents, end of year	$ 101,396	$ —	$ 33,121	$ 106,395

b. Discretely Presented Component Units

The combining schedule of the discretely presented component units University of Louisville Foundation, Inc., University of Louisville Real Estate Foundation, Inc., and UL Health, Inc., as of June 30, 2020 and 2019 are as follows (in thousands):

	2020			
	UL Foundation	UL RE Foundation	UofL Health	Total
Current assets	$ 45,954	$ 7,950	$ 787,159	$ 841,063
Capital assets	53,009	145,294	218,425	416,728
Other noncurrent assets	758,061	102,775	71,470	932,306
Total assets	857,024	256,019	1,077,054	2,190,097
Current liabilities	17,866	3,991	416,433	438,290
Other noncurrent liabilities	67,026	78,454	179,948	325,428
Total liabilities	84,892	82,445	596,381	763,718
Net investment in capital assets	—	—	8,656	8,656
Restricted expendable	731,196	—	34,193	765,389
Unrestricted	40,936	173,574	437,824	652,334
Total net position	772,132	173,574	480,673	1,426,379
Total liabilities and net positon	$ 857,024	$ 256,019	$ 1,077,054	$ 2,190,097

	2019				
	UL Foundation	**UL RE Foundation**	**ULP**	**UMC**	**Total**
Current assets	$ 52,491	$ 5,333	$ 65,232	$ 334,499	$ 452,811
Capital assets	54,114	152,005	7,279	127,655	341,053
Other noncurrent assets	771,702	108,433	21,541	49,685	956,105
Total assets	878,307	265,771	94,052	511,839	1,749,969
Current liabilities	14,364	8,007	56,729	266,786	345,886
Other noncurrent liabilities	73,024	81,295	4,000	16,613	174,932
Total liabilities	87,388	89,302	60,729	283,399	520,818
Net investment in capital assets	—	—	3,378	94,951	98,329
Restricted expendable	752,055	—	—	—	752,055
Unrestricted	38,864	176,469	29,945	133,489	378,767
Total net position	790,919	176,469	33,323	228,440	1,229,151
Total liabilities and net positon	$ 878,307	$ 265,771	$ 94,052	$ 511,839	$ 1,749,969

	2020			
	UL Foundation	**UL RE Foundation**	**UofL Health**	**Total**
Patient revenue, net	$ —	$ —	$ 968,169	$ 968,169
Other operating revenue	7,633	16,627	141,242	165,502
Total operating revenue	7,633	16,627	1,109,411	1,133,671
Depreciation	2,515	9,296	22,344	34,155
Other operating expense	82,153	10,226	1,022,268	1,114,647
Total operating expense	84,668	19,522	1,044,612	1,148,802
Operating income (loss)	(77,035)	(2,895)	64,799	(15,131)
Gifts and donations	58,877	—	—	58,877
Investment income	(629)	—	4,659	4,030
Other nonoperating revenue (expense)	—	—	(3,808)	(3,808)
Total nonoperating revenue (expense)	58,248	—	851	59,099
Transfer of operations	—	—	146,506	146,506
Change in net position	(18,787)	(2,895)	212,156	190,474
Net position-beginning of year	790,919	176,469	—	967,388
Transfer of net assets	—	—	268,517	268,517
Net position-end of year	$ 772,132	$ 173,574	$ 480,673	$ 1,426,379

	2019				
	UL Foundation	UL RE Foundation	ULP	UMC	Total
Clinical services and practice plans	$ —	$ —	$ 53,123	$ —	$ 53,123
Patient revenue, net	—	—	114,708	560,499	675,207
Other operating revenue	22,219	42,358	19,747	46,802	131,126
Total operating revenue	22,219	42,358	187,578	607,301	859,456
Depreciation	3,088	8,457	3,060	17,065	31,670
Other operating expense	80,667	9,296	203,457	558,375	851,795
Total operating expense	83,755	17,753	206,517	575,440	883,465
Operating income (loss)	(61,536)	24,605	(18,939)	31,861	(24,009)
Gifts and donations	38,926	—	—	—	38,926
Investment income	22,732	—	36,712	7,970	67,414
Other nonoperating revenue (expense)	—	(1,290)	—	(16,602)	(17,892)
Total nonoperating revenue (expense)	61,658	(1,290)	36,712	(8,632)	88,448
Change in net position	122	23,315	17,773	23,229	64,439
Net position-beginning of year	790,797	153,154	15,550	205,211	1,164,712
Net position-end of year	$ 790,919	$ 176,469	$ 33,323	$ 228,440	$ 1,229,151

c. 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. ULF - Description of Organization and Summary of Significant Accounting Policies

Accounting Policy Change

Effective July 1, 2019, the Foundation elected to change its method of recording current use gifts and net investment return as revenues with donor restrictions. The Foundation believes the method is preferable as the consolidated statements of activities will properly reflect the revenues consistent with the gifts' underlying donor restrictions.

As a result of the retrospective change in accounting principle, certain financial statement line items in the Foundation's consolidated statements of activities for the year ended June 30, 2019 were adjusted in the following table.

	Without Donor Restrictions			**Without Donor Restrictions**			
	As Previously Reported	**Effects of Change**	**As Adjusted**	**As Previously Reported**	**As Previously Reported**	**As Adjusted**	**Total**
Consolidated Statements of Activities, Fiscal Year June 30, 2019							
Gifts	$ 25,014	$ (24,177)	$ 837	$ 13,912	$ 24,177	$ 38,089	$ 38,926
Net investment returns	7,791	(670)	7,121	13,034	670	13,704	20,825
Net assets related from restrictions	33,825	24,847	58,672	(33,825)	(24,847)	(58,672)	—

Recent Accounting Pronouncements

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, 2020, 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. ULF - 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, 2020 and 2019 was as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
		(In Thousands)	
Donor-restricted endowment funds	$ —	$ 484,984	$ 484,984
Board-designated endowment funds	31,380	133,137	164,517
	$ 31,380	$ 618,121	$ 649,501

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
		(In Thousands)	
Donor-restricted endowment funds	$ —	$ 491,477	$ 491,477
Board-designated endowment funds	38,421	134,181	172,602
	$ 38,421	$ 625,658	$ 664,079

Changes in endowment net assets for the years ended June 30, 2020 and 2019 were as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
		(In Thousands)	
Endowment net assets, beginning of year	$ 38,421	$ 625,658	$ 664,079
Investment return:			
Investment and endowment income	257	4,591	4,848
Net appreciation	(349)	(11,044)	(11,393)
Total investment return	(92)	(6,453)	(6,545)
Contributions	—	13,976	13,976
Appropriations	(1,339)	(26,239)	(27,578)
Other changes	(5,610)	11,179	5,569
Endowment net assets, end of year	$ 31,380	$ 618,121	$ 649,501

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
	(In Thousands)		
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

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 net assets with or without restrictions and aggregated to approximately $24.0 million at June 30, 2020 and 2019 in net assets with donor restrictions. 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 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.

In May 2020, the Board of the Foundation approved a 3.00% spending policy for the fiscal year 2021 for support to the academic units and allocated 1.00% for overall fundraising efforts and operations of the Foundation. The spending policy is based on a twelve-quarter 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 (loss) return for total endowment assets was (1.7%) and 1.7% in 2020 and 2019, respectively.

3. ULF - Investments and Investment Income

Investments as of June 30, 2020 and 2019, are as follows:

	2020	2019
	(In Thousands)	
Cash equivalents	$ 55,291	$ 42,117
Alternate investments:		
Hedge Funds	129,057	130,295
Investments in partnerships	328,695	378,885
Mutual funds:		
Equity	88,244	34,468
Fixed Income	18,455	44,659
Marketable alternatives:		
Domestic debt securities	37,561	28,902
Marketable debt securities:		
Agency bonds	—	1,473
U.S. Treasury	25,508	34,818
Total Investments	$ 682,811	$ 695,617

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

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

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

The major portion of long-term investments is pooled in the total endowment assets, which is the general endowment pool for the Foundation. The total endowment assets is pooled using a market value basis, with each individual fund subscribing to, or disposing of, units on the basis of the market value per unit at the end of the prior calendar month during which the transaction takes place.

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2020 and 2019, consisted of the following:

	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(In Thousands)			
Hedge funds	$ 129,057	$ 1,000	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	328,695	65,882	Various from monthly to illiquid	Various from 30 to 180 days

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(In Thousands)			
Hedge funds	$ 130,295	$ 1,928	Various from quarterly to illiquid	Various from 30 to 90 days
Investments in partnerships	378,885	59,796	Various from monthly to illiquid	Various from 30 to 180 days

4. ULF - Disclosures About Fair Value of Assets and Liabilities

The following tables present the fair value measurements of assets by class recorded at fair value on a recurring basis under ASC 820 at June 30, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Cash	$ 6,503	$ —	$ —	$ 6,503
Cash equivalents	55,291	—	—	55,291
Mutual Funds:				
Equity	88,244	—	—	88,244
Fixed Income	18,455	—	—	18,455
Domestic Marketable equity securities	37,561	—	—	37,561
Marketable debt securities:				
Agency bonds	—	—	—	—
U.S. Treasury	25,508	—	—	25,508
Total Investments	231,562	—	—	231,562
Funds held in trust by others	—	58,516	—	58,516
Total cash, investments, funds held in Trusts by others, and restricted investments	$ 231,562	$ 58,516	—	290,078
Investments at NAV:				
Hedge funds				129,057
Investments in partnerships				328,695
				$ 747,830

	2019			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
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	194,749	1,473	—	196,222
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				130,295
Investments in partnerships				378,885
				$ 764,077

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, 2020.

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 and U.S. Treasury 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. Foundation does not have any assets classified as Level 2 of the fair value hierarchy.

c. Funds Held in Trust By Others

Fair value is determined at the market value of the underlying marketable debt and equity securities held in the beneficial trusts at June 30, 2020 and 2019. The Foundation's fair 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.

5. ULF - Guarantees

a. Loans

As of June 30, 2020 and 2019, 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 $621,000 and $746,000 outstanding as of June 30, 2020 and 2019, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2020 and 2019, the amount under guarantee was $6.9 million and $7.3 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. ULF - 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 $26.0 million as of June 30, 2020 and 2019, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately $32 million as of June 30, 2020 and 2019. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2020 and 2019, the Foundation recorded income of $2.2 million and $1.9 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. ULF - 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, 2020 and 2019, the Foundation held approximately $5.5 million and $11.2 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, 2020 and 2019, the Foundation held approximately $8.0 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, 2020 and 2019, 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. <u>ULF - Transactions with ULREF</u>

In 2020 and 2019, there were approximately $0 million and $11.9, 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, 2020 and 2019, the net receivable from ULREF is $16.7 million and $17.4 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, 2020 and 2019. 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.

d. <u>University of Louisville Real Estate Foundation.</u>

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. <u>ULREF - Description of Organization and Summary of Significant Accounting Policies</u>

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.

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. The ShelbyHurst Research and Technology Park Project expired prior to activation and no revenues are expected.

For the years ended June 30, 2020 and 2019, ULREF recorded approximately $1.9 million and $9.6 million, respectively, of TIF revenues.

Recent Accounting Pronouncements

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, 2021, 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. <u>ULREF - Capital Assets</u>

Capital assets at June 30, 2020 and 2019, consist of the following (in thousands):

	2020	2019
Land and land improvements	$ 49,622	$ 51,722
Buildings	100,864	100,864
Building improvements	2,153	2,072
Tenant finish	3,542	3,596
Furniture, fixtures, and equipment	2,576	2,576
	158,757	160,830
Accumulated depreciation	(14,569)	(10,100)
Construction-in-progress	1,106	1,275
	$ 145,294	$ 152,005

3. ULREF - Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2020 and 2019, were as follows (in thousands):

	2020		2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets and liabilities:				
In-place leases	$ 431	$ (377)	$ 525	$ (370)
Above-market leases	2,925	(659)	2,927	(529)
Tax incremental financing	116,600	21,057	116,600	(16,693)
Below-market leases	(610)	610	(673)	631

Amortization expense for each of the years ended June 30, 2020 and 2019, was approximately $4.5 million.

At June 30, 2020, 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	Incremental Financing
2021	$ 11	$ 123	$ 4,364
2022	11	123	4,364
2023	11	123	4,364
2024	11	123	4,364
2025	8	123	4,364
Thereafter	2	1,651	73,723
Total	$ 54	$ 2,266	$ 95,543

4. ULREF - Debt

Debt in the consolidated statements of financial position at June 30, 2020 and 2019 consists of the following (in thousands):

	Description	Fiscal Year of Maturity		2020		2019
Permanent Financing- 22 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	$	8,873	$	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		12,000
Northwestern Mutual Loan Housing	Fixed 4.77% rate with 20-year amortization commencing November 2018; principal and interest payments monthly commencing January 2019	2038		39,934		41,257
	Debt			60,807		62,597
	Less debt issuance costs			(512)		(573)
	Total debt		$	60,295	$	62,024

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, 2020, 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 Cardinal Station, LLC 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, 2020.

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

	Year ending June 30:		
	2021	$	1,737
	2022		13,917
	2023		1,987
	2024		9,067
	2025		1,672
	Thereafter		32,427
$		$	60,807

5. ULREF - Leasing Activities

The ULREF leases space to tenants under noncancellable operating leases. As of June 30, 2020, the ULREF had various leases expiring in 1 to 86 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, 2020 and 2019, was as follows on the following page (in thousands):

	2020	**2019**
Base minimum rents	$ 13,059	$ 10,432
Common area maintenance	130	97
	$ 13,189	$ 10,529

Future leasing rent payments due to ULREF on noncancellable leases are as follows (in thousands):

Year ending June 30:	
2020	$ 2,766
2021	2,194
2022	1,808
2023	1,807
2024	1,441
Thereafter	11,864
	$ 21,880

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.

e. UofL Health, Inc.

The consolidated financial statements of UofL Health, Inc. (UofL Health) include the accounts of University Medical Center, Inc. d/b/a University of Louisville Hospital/James Graham Brown Cancer Center (UMC), UofL Health – Louisville (Jewish Hospital), Inc., UofL Health – Shelbyville, Inc. (Jewish Hospital Shelbyville), and University of Louisville Physicians, Inc. (ULP). All significant intercompany accounts and transactions have been eliminated in consolidation.

UofL Health is a nonprofit corporation incorporated on September 4, 2019. UofL Health is the sole corporate member of UMC, Jewish Hospital, Jewish Hospital Shelbyville, and ULP (collectively, the "Corporation"). The business and affairs of the Corporation are conducted by its Board of Directors. The Board of Directors (the Board) includes 11 voting directors consisting of 5 directors appointed by the University of Louisville (UofL), and 6 at-large directors, nominated and voted on by the Board. The Corporation is a component unit of the University of Louisville.

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, 2021.

UMC became a wholly owned subsidiary of UofL Health effective November 1, 2019.

UofL Health, Inc. – Louisville (Jewish Hospital) and UofL Health, Inc. – Shelbyville (Jewish Hospital Shelbyville) were incorporated September 23, 2019. On November 1, 2019, UofL Health acquired assets through a business acquisition with KentuckyOne Health under the corporations of Jewish Hospital and Jewish Hospital Shelbyville.

ULP was established in August 2011 and is organized as a private, nonprofit corporation that functions as the corporate structure for clinical practices of the faculty of UofL School of Medicine. Operations began on January 1, 2012, when the first two physician groups (clinical departments) transitioned their practices into ULP. As of June 30, 2020, ULP has seventeen clinical departments. ULP became a wholly owned subsidiary of UofL Health effective November 1, 2019. The consolidated financial statements of UofL Health, Inc. (UofL Health) include the accounts of University Medical Center, Inc. d/b/a University of Louisville Hospital/James Graham Brown Cancer Center (UMC), UofL Health – Louisville (Jewish Hospital), Inc., UofL Health – Shelbyville, Inc. (Jewish Hospital Shelbyville), and University of Louisville Physicians, Inc. (ULP). All significant intercompany accounts and transactions have been eliminated in consolidation

Complete financial statements for UofL Health and prior financial statements for UMC can be obtained from the administrative office at UofL Health 530 S. Jackson Street Louisville, Kentucky 40202. Prior financial statements for ULP can be obtained from 300 E. Market Street Louisville, Kentucky 40202.

1. <u>Patient Accounts Receivable and Net Patient Service Revenue</u>

The Corporation recognizes net patient service revenues on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, and managed care and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the type of service provided to the patient. The Corporation recognizes an estimated contractual allowance to reduce gross patient charges to the estimated net realizable amount for services rendered based upon previously agreed-to rates with a payor. The Corporation utilizes the patient accounting system to calculate contractual allowances on a payor-by-payor basis based on the rates in effect for each primary third-party payor. Another factor that is considered and could further influence the level of the contractual reserves includes the status of accounts receivable balances as inpatient or outpatient. The Corporation's management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

Payors include federal and state agencies, including Medicare and Medicaid, managed care health plans, commercial insurance companies, employers, and patients. These third-party payors provide payments to the Corporation at amounts different from its established rates based on negotiated reimbursement agreements. Payment arrangements include prospectively determined rates per discharge, reimbursement costs, discounted charges, and fee schedule payments. Retroactive adjustments 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.

<u>Allowance for Doubtful Accounts</u>

Accounts receivable are reduced by an allowance for doubtful accounts based on the Corporation's evaluation of its major payor sources of revenue, the aging of the accounts, historical losses, current economic conditions, and other factors unique to their service area and the health care industry. For receivables associated with self-pay payments, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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 $1.04 billion for the period ending June 30, 2020), an estimated $7.8 million arose from providing services to charity patients for the period ending June 30, 2020. 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.

The details of patient accounts receivable are set forth below, with comparative June 30, 2019 balances from ULP (in thousands):

	2020	2019
Patient accounts receivable	$ 1,350,083	$ 822,767
Less allowance for uncollectible accounts	(97,399)	(44,226)
Less allowance for contractual adjustments	(1,014,921)	(691,383)
Net patient accounts receivable	$ 237,763	$ 87,158

The Corporation services without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of net receivables from patients and third-party payors, with comparative June 30, 2019 values from UMC, are as follows:

	2020		2019	
	Account Receivable	Gross Revenue	Account Receivable	Gross Revenue
Medicare	12 %	35 %	13 %	35 %
Medicaid	7 %	24 %	7 %	28 %
Managed care	32 %	13 %	32 %	8 %
Commercial and other	42 %	22 %	45 %	21 %
Self-pay	7 %	6 %	3 %	8 %
	100 %	100 %	100 %	100 %

Net patient service revenue consists of the following (in thousands):

		2019	
	2020	UMC	ULP
Patient revenue:			
Inpatient services	$ 1,732,302	$ 1,331,614	$ —
Outpatient services	2,017,523	1,370,673	387,323
Total patient revenue	3,749,825	2,702,288	387,323
Revenue deductions:			
Provision for contractual allowances	2,687,746	2,117,590	245,237
Provision for bad debt allowances	65,996	16,023	27,378
Charity care	27,914	8,175	—
Total revenue deductions	2,781,656	2,141,788	272,616
Total net patient service revenue	$ 968,169	$ 560,499	$ 114,708

2. Business Combination

On August 14, 2019, UofL entered into an asset purchase agreement with Jewish Hospital & St. Mary's Healthcare, Inc., a Kentucky nonprofit corporation; KOMG-Louisville Region, Inc., a Kentucky nonprofit corporation, and CHI Kentucky, Inc., a Kentucky Corporation (collectively, KentuckyOne-Louisville). The agreement included CommonSpirit Health f/k/a Catholic Health Initiatives, a Colorado, nonprofit corporation, for limited specific purposes. The acquisition was finalized on November 1, 2019. As part of this acquisition, the Corporation received $187.8 million of KentuckyOne assets in exchange for assumption of certain liabilities in the amount of $53.5 million and a cash payment of $6.6 million. As part of this asset acquisition, UMC's long- term debt with CHI Kentucky, Inc. of $8.9 million, and UMC's long-term debt with KentuckyOne Health of $10.0 million was forgiven. As a result of the asset purchase agreement, the Corporation recognized a gain on acquisition for the excess of the fair value of assets acquired over liabilities assumed of $146.5 million and is included in the consolidated statement of operations and changes in net assets.

The following is a reconciliation of the transaction for the Corporation as of November 1, 2019 (in thousands):

Fair value of assets acquired:		
Cash and cash equivalents	$	16
Accounts receivable		92,800
Inventories		17,362
Prepaid expense and other		3,626
Property and equipment, net		73,975
Total fair value of assets acquired	$	187,779
Liabilities assumed:		
Accounts payable and accrued expenses	$	53,548
Total liabilities assumed		53,548
Cash paid in acquisition	$	6,618
Long-term debt forgiven in acquisition	$	18,893
Gain on acquisition	$	146,506

Additionally, effective November 1, 2019, UofL Health became the sole corporate member of UMC and ULP through a noncash business transaction. The Corporation recorded the carrying value of the assets acquired and liabilities assumed as of November 1, 2019. There was no gain or loss associated with this business combination.

3. Fair Value Measurements

The Corporation adopted FASB's ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this ASU remove and modified certain disclosure requirements in Topic 820.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used as of June 30, 2020.

U.S. government obligations: Valued using pricing models maximizing the use of observable inputs for similar securities.

Municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Mutual funds: Valued at the daily closing prices as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.

Mortgage bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Asset backed bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2020 are as follows (in thousands):

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments as fair value:				
U.S. government obligations	$ —	$ 10,832	$ —	$ 10,832
Municipal bonds	—	537	—	537
Mutual funds:				
Fixed income	39,744	—	—	39,744
Money market	5,132	—	—	5,132
Total mutual funds	44,875	—	—	44,875
Mortgage bonds	—	3,878	—	3,878
Asset backed bonds	—	4,929	—	4,929
Corporate bonds				
Communication services	—	810	—	810
Healthcare	—	1,410	—	1,410
Industrial	—	2,615	—	2,615
Financial services	—	9,138	—	9,138
Energy	—	3,959	—	3,959
Consumer goods	—	2,583	—	2,583
Real estate	—	303	—	303
Consumer cyclical	—	1,058	—	1,058
Utilities	—	1,283	—	1,283
Technology	—	3,411	—	3,411
Total corporate bonds	—	26,570	—	26,570
Total assets in the fair value hierarchy	$ 44,875	$ 46,745	$ —	$ 91,620
Cash				23,488
Total investments at fair value				$ 115,108

4. Passport Health Plan

The Corporation has a 63.88% sponsorship interest in Passport as of June 30, 2020. Passport is not consolidated within the consolidated financial statements as the Corporation does not exercise voting control of the Board of Directors. Passport is a comprehensive risk-based entity that has separate financial statements available. The carrying amount of the investment is approximately $10.3 million as of June 30, 2020. Passport is in the process of selling a portion of its organization. The sale of Passport is expected to be complete in the fall of 2021. The Corporation received approximately $34.3 million as part of the sale in 2020, and is expecting to receive an additional $10.3 million, when the sale is complete. The valuation as of June 30, 2020 is based on the expected sale price of the shares to be received in fiscal year 2021. For the period ending June 30, 2020, the Corporation received estimated gross revenues of approximately $32.7 million from Passport.

5. Refundable Advances

During 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act were distributed to health care providers impacted by the outbreak of the COVID-19 pandemic under Catalog of Federal Domestic Assistance (CFDA) #93.498. Revenues from Provider Relief Fund grants are recognized to the extent of expenses incurred specific to responding to the COVID-19 pandemic. In addition to these eligible expenses, changes in operating income (loss) as a result of the pandemic could qualify as eligible for reimbursement. Changes in operating income lost represent the deficiency of net operating revenues less operating expenses related to health care services recognized over the same period in the previous year. The Corporation received PRF grants of approximately $86.0 million. PRF grants of approximately $51.9 million included in the consolidated statement of operations and changes in net assets as other operating revenues. PRF grants of $34.2 million included in refundable advances on the consolidated balance sheets represent grant funds received in excess of lost operating income and COVID-19 related expenses.

The guidance issued by the grantor to define eligible expenses and, more specifically, to determine changes in operating income (loss) related to the pandemic that would be eligible for reimbursement is evolving and is uncertain as of the date the consolidated financial statements were available to be issued. Therefore, these funds are subject to recoupment by the grantor in the event that the conditions for recognition are not met.

The passage of the CARES Act also authorized Centers for Medicare and Medicaid Services (CMS) to expand the Medicare Accelerated and Advancement Payment Program to a broader group of Medicare Part A providers and Part B suppliers. As eligible health care organizations, UMC, Jewish Hospital, Jewish Hospital Shelbyville, and ULP were eligible to request up to 100% of their Medicare payment amounts for a six-month period. These payments were issued in April 2020. Recoupment of the advance payment was to begin following a 120-day deferral period. The Continuing Appropriations Act, 2021 and Other Extensions Act which was passed on September 30, 2020 allowed providers to extend repayment for a full year before recoupment begins. As of the date the consolidated financial statements were to be issued, no recoupment has occurred. During the period before recoupment, Medicare claims submitted by the Corporation will continue to be reimbursed at standard rates, after which the recoupment process will begin and payment for submitted claims will be reduced by 25% for 6 months, then 50% for the following 11 months, and any outstanding payments after this period will be due in full to CMS. The advance payment is included in refundable advances on the consolidated balance sheets.

As of and for the eight-month period ended June 30, 2020, revenues recognized and refundable advances were as follows (in thousands):

	Revenue Recognized	Refundable Advances	Total
Provider relief fund	$ 32,883	$ 53,198	$ 86,081
Medicare accelerated and advance payment program	—	130,541	130,541
Ending balance as of June 30, 2020	$ 32,883	$ 183,739	$ 216,622

6. Medical Malpractice Claims

The Corporation is insured against medical malpractice claims under claims-made based policies, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policies, the Corporation bears the risk of the ultimate costs of any individual claims or aggregate claims exceeding $8.0 million for claims asserted in the policy year. In addition, the Corporation has an umbrella policy with additional coverage limits.

Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based on the occurrences during the claims-made term but reported subsequently will be uninsured.

The Corporation is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Corporation's cost for such claims for the year and it has been charged to operations as a current expense.

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

	6/30/2020	6/30/2019	6/30/2018
Total OPEB liability			
Service Cost	$ 2,437	$ 4,630	$ 5,203
Interest	2,497	3,296	2,728
Difference between expected and actual experience	1,923	(1,718)	(2,608)
Changes of assumption	5,488	(27,504)	(5,495)
Benefit payments	(2,836)	(2,817)	(3,007)
Net change in OPEB Liability	9,509	(24,113)	(3,179)
OPEB liability - beginning of year	64,730	88,843	92,022
OPEB liability - end of year	$ 74,239	$ 64,730	$ 88,843
Covered employee payroll	$ 493,893	$ 450,332	$ 445,356
Total OPEB liability as a percentage of covered employee payroll	15.03%	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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
University of Louisville
Louisville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of Louisville, which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2020.

Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's financial statements. The financial statements of the University of Louisville Foundation, Inc. and Affiliates, University of Louisville Real Estate Foundation, Inc., the University of Louisville Health, Inc., (discretely presented component units), were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with those entities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University of Louisville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University of Louisville's internal control. Accordingly, we do not express an opinion on the effectiveness of University of Louisville's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of Louisville’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 20, 2020