

**UNIVERSITY OF LOUISVILLE  
RESEARCH FOUNDATION, INC.**

**A Component Unit of the University of Louisville**

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

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**For the Years Ended June 30, 2020 and 2019**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of Louisville Research Foundation, Inc. (Research Foundation), a component unit of the University of Louisville, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Research Foundation as of June 30, 2020 and 2019, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14, and the Schedule of Funding Progress on Page 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

St. Louis, Missouri  
October 20, 2020

# UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

## A Component Unit of the University of Louisville Management's Discussion and Analysis (Unaudited) For the Years Ended June 30, 2020 and 2019

### Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Research Foundation, Inc. (Research Foundation) for the years ended June 30, 2020 and 2019. Comparative information for the year ended June 30, 2018 has been provided where applicable. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Research Foundation is a nonprofit corporation affiliated with the University of Louisville (University), a state-supported metropolitan research university located in Louisville, Kentucky. The Research Foundation was established in 1989 for the purpose of promoting and supporting research projects, investigations, and other activities relating to the educational, scientific, literary, artistic, health care and public service missions of the University.

The University's strategic plan guides the Research Foundation's program. The Research Foundation accepts funding for research, training, and service from extramural sources and has maintained progress towards the goals established by the Kentucky Council on Postsecondary Education. During the fiscal year ended June 30, 2020, total awards were \$169.5 million, an increase of \$17.4 million or 11.5%, as compared to fiscal year 2019. Some of the funding highlights include:

- Funding from the Higher Education Emergency Relief Fund of the CARES Act – \$6.2 million in Institutional funding and \$6.2 million in student aid funding;
- \$4.0 million from the Department of Labor for Modern Apprenticeship Pathways to Success Program;
- \$3.4 million from the NIH for IDeA Networks of Biomedical Research Excellence;
- \$2.7 million from National Institutes of Health (NIH) for Protection of Ischemic Myocardium – Administrative Core;
- \$2.2 million from the NIH for year three of Functional Microbiomics for the study of microbial communities that live in and on our bodies and the roles they play in human health and disease.

### Using the Financial Statements

The Research Foundation'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. The Research Foundation is presented here as a single entity and is also included in the consolidated financial statements of the University.

### Financial Highlights

The Research Foundation's financial position remains stable at June 30, 2020, with total assets of \$160.2 million and liabilities of \$53.3 million as compared to June 30, 2019 at \$122.9 million of total assets and \$82.3 million of liabilities. Net position, which represents the residual interest in the Research Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, was \$100.2 million and \$29.8 million for the years ended June 30, 2020 and 2019, respectively.

Operating revenues amounted to \$455.9 million and \$415.7 million and operating expenditures were \$439.5 million and \$447.0 million resulting in a net operating gain of \$16.5 million and a net operating loss of \$31.4 million for the years ended June 30, 2020 and 2019, respectively. When adjusted for net nonoperating revenues of \$53.9 million and \$42.8 million, net position of the Research Foundation increased by \$70.4 million and increased by \$11.5 million for the years ended June 30, 2020 and 2019, respectively.

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**Statements of Net Position**

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

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

<i>Condensed Statements of Net Position</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2020-2019 Change</b>	<b>2019-2018 Change</b>
<b>ASSETS</b>					
Current assets	\$ 65,896	\$ 61,758	\$ 50,209	\$ 4,138	\$ 11,549
Capital assets	53,536	56,423	57,680	(2,887)	(1,257)
Other noncurrent assets	40,777	4,758	6,443	36,019	(1,685)
Total assets	160,209	122,939	114,332	37,271	8,607
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	3,364	1,049	1,240	2,315	(191)
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	163,573	123,988	115,572	39,586	8,416
<b>LIABILITIES</b>					
Current liabilities	26,520	58,290	62,211	(31,770)	(3,921)
Noncurrent liabilities	26,750	23,974	32,309	2,776	(8,335)
Total liabilities	53,270	82,264	94,520	(28,994)	(12,256)
<b>DEFERRED INFLOWS OF RESOURCES</b>	10,069	11,905	2,722	(1,836)	9,183
<b>NET POSITION</b>					
Net investment in capital assets	53,547	56,423	57,690	(2,876)	(1,267)
Restricted - expendable	27,720	25,583	27,500	2,137	(1,917)
Unrestricted	18,967	(52,187)	(66,860)	71,154	14,673
Total net position	100,234	29,819	18,330	70,415	11,489
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 163,573	\$ 123,988	\$ 115,572	\$ 39,585	\$ 8,416

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**Assets**

Current assets of \$65.9 million consist of \$40.1 million of accounts receivable that are to be collected within the next year. Current accounts receivable decreased by \$5.1 million, with a decrease of \$5.9 million in clinical activities receivables and \$0.7 million increase in grant and contract activities receivables in 2020.

Noncurrent assets consist mainly of \$53.5 million of capital assets, which decreased due to \$6.4 million in depreciation offset by additional capital asset purchases of \$3.5 million.

**Deferred Outflows of Resources**

Deferred outflow of resources represents a consumption of net assets applicable to a future period. The balance of \$3.4 million as of June 30, 2020 consisted of future payments to be made for other post-employment benefits.

**Liabilities**

The Research Foundation's current liabilities consist \$11.1 million of unexpended cash advances for sponsored research activities, a decrease of 0.1 million compared to June 30, 2019. The Research Foundation is required to set up a liability when awards are paid in advance, as they are responsible for paying back any unused funds to the sponsor. The remaining \$15.4 million of current liabilities relates to trade accounts payable and other accrued liabilities. The Research Foundation's allocated portion of other post-employment benefits totals \$26.8 million, shown as other long-term liabilities which increased by \$2.8 million due primarily to a change in actuarial assumptions.

**Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position that applies to future periods. The balance of \$10.1 million is related to a change in actuarial assumptions and the difference between expected and actual experience used in the other postemployment benefit liability with the adoption of GASB 75.

**Net Position**

Net position represents the residual interest in the Research Foundation's assets after liabilities are deducted. The Research Foundation's net position at June 30, 2020 and 2019 was \$100.2 million and \$29.8 million, respectively. Net position is summarized into the three major categories in accordance with GASB Statement No. 35 and GASB Statement No. 63 reporting requirements as follows:

**Net Investment in Capital Assets**

The Research Foundation's net investments in capital assets represents construction in progress, buildings, equipment and depreciable library materials, net of accumulated depreciation. There is no debt attributable to the acquisition, construction or improvement of those assets. Capital assets decreased by \$2.9 million from 2019. This decrease reflects \$6.4 million of depreciation and addition of capital assets of \$3.5 million.

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**Restricted Expendable Net Position**

Restricted expendable net position represents funds primarily from fixed payment contracts that are subject to externally imposed restrictions governing their use. Net position results from the excess of contract revenues over expenses incurred through June 30, 2020. The amounts remain restricted until the contract is completed.

Restricted expendable net position increased \$2.2 million. The overall increase is due mainly to an increase in nongovernmental grants.

**Unrestricted Net Position**

Unrestricted net position increased by \$71.2 million. The increase in unrestricted net position results primarily from enhanced operations in clinical services and improved contracts with affiliated parties resulting in increased revenues exceeding actual operating expenses.

**Fiscal Year 2019**

The Research Foundation's financial position as of the fiscal year ended June 30, 2019 shows an increase in assets, a decrease in liabilities with an overall increase in net position. Assets increased during the fiscal year ended June 30, 2019 by \$8.6 million, or 8.0%, as compared to the fiscal year ended June 30, 2018. This increase was due mainly to the \$15.7 million increase in Due from Affiliates. The decrease in liabilities of \$12.3 million includes a decrease of amounts due to the University of Louisville of \$9.5 million and a decrease in other long term liabilities of \$8.3 million.

Net position increased \$11.5 million, or 63%, due primarily from clinical services and fixed contract revenues exceeding actual operating expenses.

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

A condensed version of the Research Foundation's revenues, expenses and changes in net position for the years ended June 30, 2020, 2019, and 2018 (in thousands) is shown below:

<i>Condensed Statements of Revenues, Expenses, and Changes in Net Position</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2020-2019 Change</b>	<b>2019-2018 Change</b>
<b>OPERATING REVENUES</b>					
Clinical services and practice plans	\$ 306,579	\$ 271,974	\$ 248,327	\$ 34,605	\$ 23,647
Grants and contracts	109,460	106,134	98,868	3,326	7,266
Facilities and administrative cost recoveries	28,447	28,248	27,035	199	1,213
Other operating revenues	11,450	9,320	6,304	2,130	3,016
Total operating revenues	<u>455,936</u>	<u>415,676</u>	<u>380,534</u>	<u>40,260</u>	<u>35,142</u>
<b>OPERATING EXPENSES</b>					
Depreciation	6,362	6,052	6,537	310	(485)
Other operating expenses	433,108	440,975	421,824	(7,867)	19,151
Total operating expenses	<u>439,470</u>	<u>447,027</u>	<u>428,361</u>	<u>(7,557)</u>	<u>18,666</u>
Operating gain/(loss)	<u>16,466</u>	<u>(31,351)</u>	<u>(47,827)</u>	<u>47,817</u>	<u>16,476</u>

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<i>Condensed Statements of Revenues, Expenses, and Changes in Net Position</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2020-2019 Change</b>	<b>2019-2018 Change</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Nonexchange grants and contracts	52,493	46,179	45,881	6,314	298
Contributions to related entities	(962)	(4,153)	(13,765)	3,191	9,612
Other nonoperating revenues	2,418	814	565	1,604	249
Total nonoperating revenues	53,949	42,840	32,681	11,109	10,159
Increase in net position	70,415	11,489	(15,146)	58,926	26,635
<b>NET POSITION</b>					
Net position, beginning of year	29,819	18,330	49,822	11,489	(31,492)
Cumulative effect of change in accounting principle	—	—	(16,346)	—	16,346
Net position, end of year	\$ 100,234	\$ 29,819	\$ 18,330	\$ 70,415	\$ 11,489

**Operating Revenues**

The Research Foundation recognized \$455.9 million in operating revenues for the year ended June 30, 2020. This represents an increase of \$40.3 million, or 10% in revenues from the \$415.7 million reported for the year ended June 30, 2019.

Revenues from clinical services were \$306.6 million for the year ended June 30, 2020. This is an increase of approximately \$34.6 million, or 13%, compared to \$271.9 million in clinical revenues reported for the year ended June 30, 2019. The majority of the increase is attributed to improved clinical operations of \$46.2 million offset by a decrease of \$14.1 million in Academic Program Support (further described in Note 7 to the financial statements.)

Revenues from grants and contracts were \$109.5 million for the year ended June 30, 2020 as compared to \$106.1 million in revenues reported in the previous year. This includes an increase in nongovernmental grants and contract of \$6.9 million offset by a decrease of \$2.5 million in federal grants and contracts and a decrease of \$1.1 million in state and local grants and contracts.

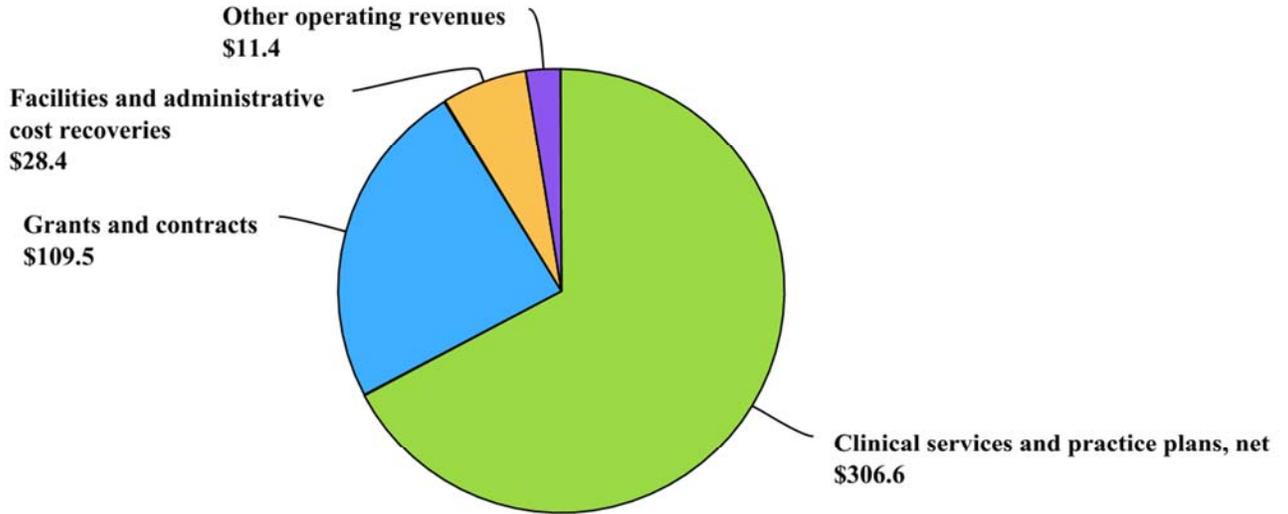
Revenue from facilities and administrative cost recoveries were \$28.4 million and \$28.2 million for the years ended June 30, 2020 and 2019, respectively. The Research Foundation compensates the University for a portion of the cost recoveries in support of University expenditures. For the years ended June 30, 2020 and 2019, approximately \$11.6 million and \$10.2 million, respectively, were transferred to the University for this purpose.

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**

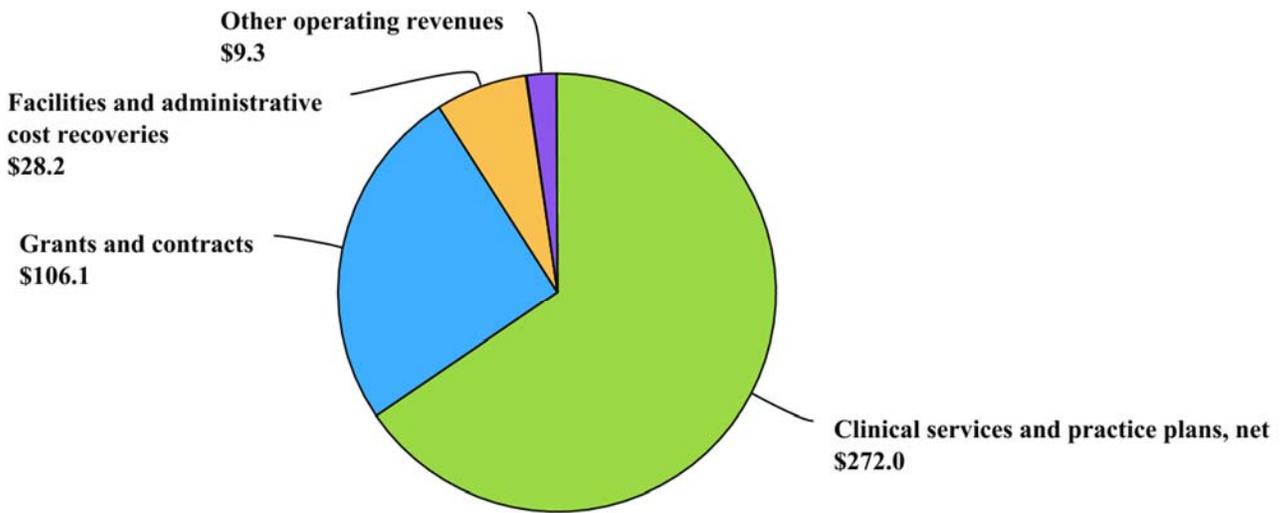
**A Component Unit of the University of Louisville  
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The following is a graphic illustration of the Research Foundation's operating revenues by major source for the years ended June 30, 2020 and 2019 (in millions):

**Operating Revenues  
Year Ended June 30, 2020**



**Operating Revenues  
Year Ended June 30, 2019**

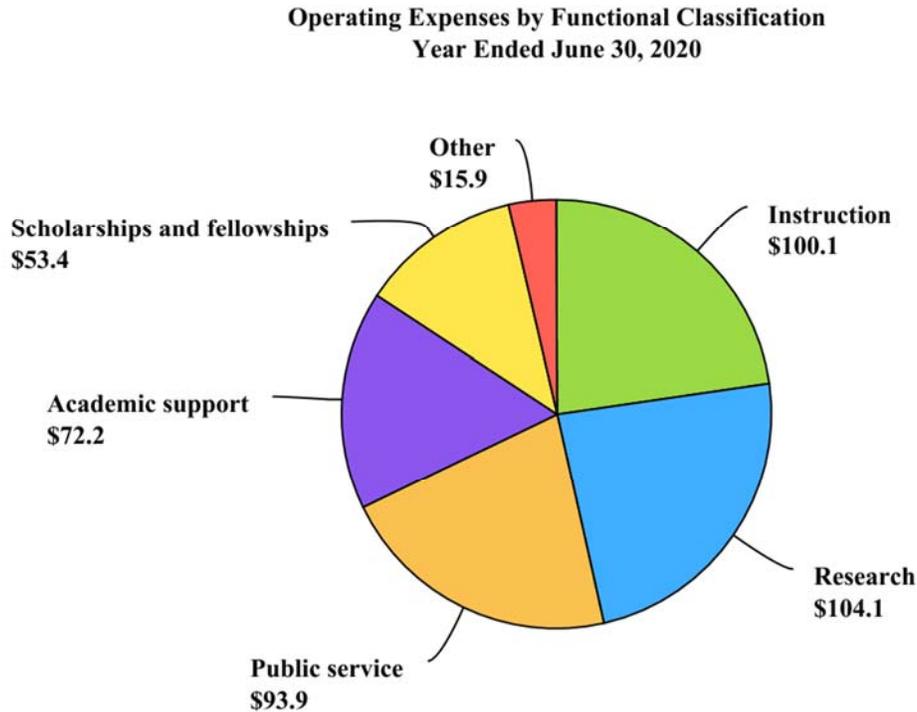


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**Operating Expenses by Functional and Natural Class**

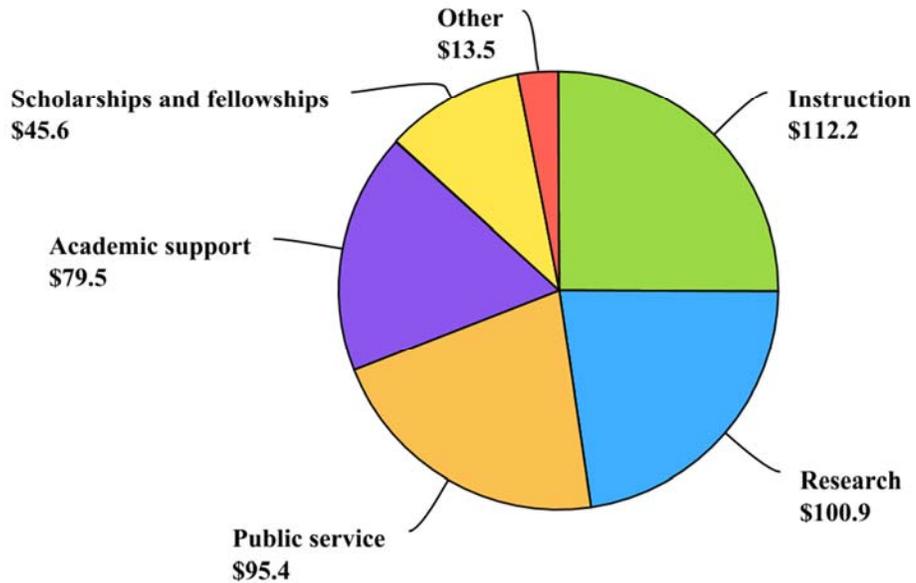
Total operating expenses were \$439.5 million and \$447.0 million for the fiscal years ended June 30, 2020 and 2019, respectively. The primary drivers of the decrease of \$7.5 million, or 1.7%, is a decrease of \$14.6 million in salary and benefits expense offset by an increase in scholarship and fellowships as shown in the operating expenses by natural classification chart on the following page.

The following is a graphic illustration of total operating expenses by function for the years ended June 30, 2020 and 2019 (in millions):



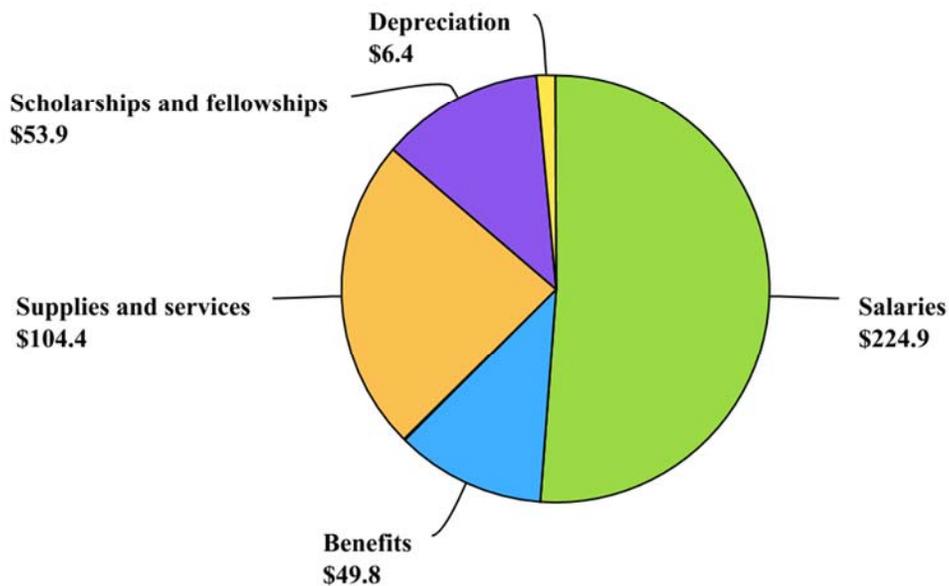
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**Operating Expenses by Functional Classification**  
**Year Ended June 30, 2019**



The following is a graphic illustration of total operating expenses by natural classification for the years ended June 30, 2020, and 2019 (in millions):

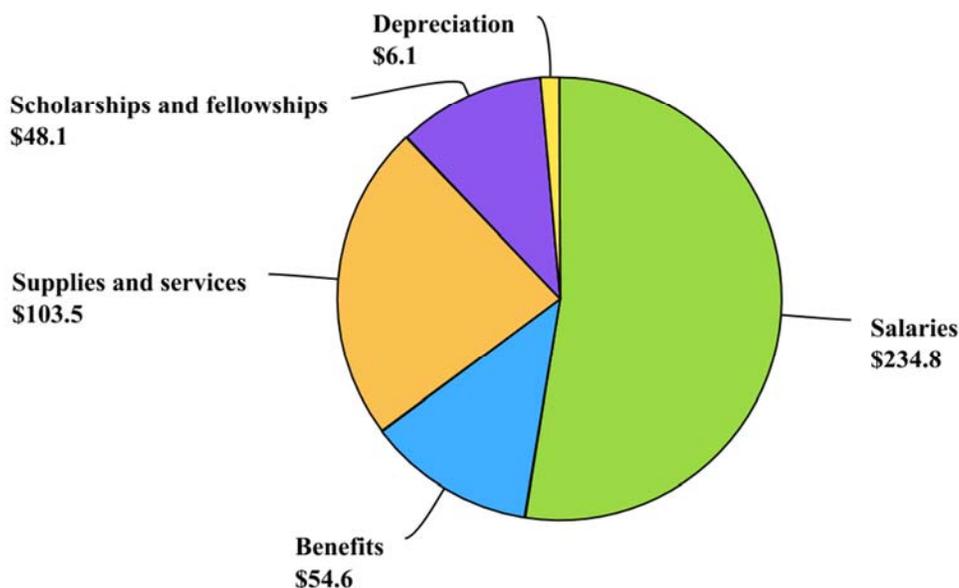
**Operating Expenses by Natural Classification**  
**Year Ended June 30, 2020**



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**Operating Expenses by Natural Classification  
Year Ended June 30, 2019**



**Nonoperating Revenues (Expenses)**

The Research Foundation's total nonoperating revenues of \$53.9 million for fiscal year ended June 30, 2020, was mostly comprised of nonexchange grants and contract revenues of \$52.5 million reduced by transfers to the University of \$1.0 million for support of university operations. Total nonoperating revenues increased by \$11.1 million as compared to fiscal year ended June 30, 2019. The increase is attributed to an increase in nonexchange grants and contract revenues of \$6.3 million, an increase of \$1.6 million in gifts and an increase in support provided to the University of \$3.2 million in fiscal year ending June 30, 2020.

**Fiscal Year 2019**

For the year ended June 30, 2019, Research Foundation reported \$415.7 million in operating revenues, an increase of \$35.1 million, or 9% compared to the \$380.5 million reported for the year ended June 30, 2018.

Revenues from clinical services and practice plans were \$272.0 million for fiscal year 2019, an increase of \$23.6 million or 10% from the fiscal year ended June 30, 2018. The majority of the increase is attributed to academic program support of \$10.0 million received from an affiliate and \$15.1 million received from an affiliate for mission support.

Revenues from grants and contracts were \$106.1 million for the year ended June 30, 2019 as compared to \$98.9 million in revenues reported in the previous year. This includes an increase of \$7.0 million in federal grants and contracts and an increase of \$3.2 million in state and local grants and contracts.

Revenue from facilities and administrative cost recoveries were \$28.2 million and \$27.0 million for the years ended June 30, 2019 and 2018, respectively. The Research Foundation compensates the University for a portion of the cost recoveries in support of University expenditures. For the years ended June 30, 2019 and 2018, approximately \$10.2 million and \$11.8 million, respectively, were transferred to the University for this purpose.

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Total operating expenses were \$447.0 million and \$428.4 million for the fiscal years ended June 30, 2019 and 2018, respectively. The primary drivers of the increase of \$18.7 million, or 4.0%, is an increase of \$6.4 million in salary expense and an increase of \$3.6 million in scholarships and fellowships.

**Statements of Cash Flows**

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

Condensed statements of the Research Foundation's cash flows for the years ended June 30, 2020, 2019, and 2018 (in thousands) are summarized below:

<i>Condensed Statements of Cash Flows</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020-2019 Change</u>	<u>2019-2018 Change</u>
Cash (used)/provided by:					
Operating activities	\$ 25,509	\$ (14,442)	\$ (48,940)	\$ 39,951	\$ 34,498
Noncapital and related financing activities	(2,006)	19,237	51,435	(21,243)	(32,198)
Capital financing activities	(3,532)	(4,795)	(2,534)	1,263	(2,261)
Investing activities	—	—	39	—	(39)
Net increase in cash	19,971	—	—	19,971	—
Cash and cash equivalents, beginning of year	—	—	—	—	—
Cash and cash equivalents, end of year	\$ 19,971	\$ —	\$ —	\$ 19,971	\$ —

**Operating Activities**

The Research Foundation's operating activities earned approximately \$25.5 million of cash during the fiscal year ended June 30, 2020, representing an increase of \$40.0 million compared to the prior year. The most significant driver in the reduction of cash usage is the increase in clinical services totaling \$22.1, a \$3.4 million increase in grants and contract offset by a reduction of \$22.8 million in payments to employees for salaries, wages and benefits during the fiscal year ended June 30, 2020.

**Other Activities**

The net \$2.0 million cash used for noncapital and related financing activities relates mainly to \$52.5 million provided by nonexchange grants and contracts and \$2.4 million in gifts offset by payments to the university of \$56.0 million for settlement of negative cash balances. In total, cash used for noncapital and related financing activities decreased \$21.2 million from the fiscal year ended June 30, 2019.

Cash used for capital financing activities decreased \$1.2 million to \$3.6 million during the fiscal year ended June 30, 2020.

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**Fiscal Year 2019**

The Research Foundation's operating activities used approximately \$14.4 million of cash during the fiscal year ended June 30, 2019, representing an decrease of \$34.5 million compared to the prior year. The most significant driver in the reduction of cash usage is the additional support payments totaling \$25 million during the fiscal year ended June 30, 2019.

The \$19.2 million provided by noncapital and related financing activities relates mainly to the \$46.2 million provided by nonexchange grants and contracts offset by a net increase in due from affiliates of \$23.6 million.

Cash used for capital financing activities increased \$2.3 million to \$4.8 million during the fiscal year ended June 30, 2019.

**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 US and Global economy. The Research Foundation 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 on-line 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 Research Foundation 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 and auxiliary revenue if it were required to cancel face to face classes and was not able to convert the classes to an on-line 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 expects COVID 19 testing, personal protective equipment and other safety measures to be an incremental cost for 2020.

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- 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 RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**Statements of Net Position**  
**As of June 30, 2020 and 2019**  
**(in thousands)**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 19,971	\$ —
Accounts receivable, net	40,128	45,243
Due from affiliate	5,030	15,797
Inventories	463	412
Other assets	304	306
Total current assets	65,896	61,758
Noncurrent Assets		
Accounts receivable, net	540	715
Due from affiliate	40,237	4,043
Capital assets, net	53,536	56,423
Total noncurrent assets	94,313	61,181
Total assets	160,209	122,939
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	3,364	1,049
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	163,573	123,988
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	15,415	16,509
Due to the University of Louisville	—	30,528
Grant advances	11,105	11,253
Total current liabilities	26,520	58,290
Noncurrent Liabilities		
Other long-term liabilities	26,750	23,974
Total noncurrent liabilities	26,750	23,974
Total liabilities	53,270	82,264
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	10,069	11,905
<b>NET POSITION</b>		
Net investment in capital assets	53,547	56,423
Restricted:		
Expendable	27,720	25,583
Unrestricted	18,967	(52,187)
Total net position	100,234	29,819
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 163,573	\$ 123,988

See notes to financial statements

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2020 and 2019**  
**(in thousands)**

	<b>2020</b>	<b>2019</b>
<b>OPERATING REVENUES</b>		
Clinical services and practice plan, net of contractual allowances of \$106,907 in 2020 and \$106,293 in 2019	\$ 306,579	\$ 271,974
Federal grants and contracts	77,001	79,485
State and local grants and contracts	10,261	11,368
Nongovernmental grants and contracts	22,198	15,281
Facilities and administrative cost recoveries	28,447	28,248
Sales and services of educational departments	808	873
Other operating revenues	10,642	8,447
Total operating revenues	455,936	415,676
<b>OPERATING EXPENSES</b>		
Instruction	100,079	112,227
Research	104,087	100,905
Public service	93,882	95,435
Academic support	72,201	79,472
Student services	7	7
Institutional support	8,066	7,504
Operation and maintenance of plant	1,416	(133)
Scholarships and fellowships	53,370	45,558
Depreciation	6,362	6,052
Total operating expenses	439,470	447,027
Operating gain (loss)	16,466	(31,351)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	2,356	775
Nonexchange grants and contracts	52,493	46,179
Other nonoperating revenues	62	39
Net nonoperating revenues	54,911	46,993
Contributions to related entities	(962)	(4,153)
Total other revenues	53,949	42,840
Increase in net position	70,415	11,489
<b>NET POSITION</b>		
Net position - beginning of year	29,819	18,330
Net position - end of year	\$ 100,234	\$ 29,819

See notes to financial statements

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Clinical services	\$ 301,712	\$ 279,579
Grants and contracts	116,259	112,783
Sales and service of educational departments	808	—
Payments to suppliers	(100,454)	(100,163)
Payments to employees	(224,944)	(247,756)
Payments for benefits	(53,018)	(48,322)
Payments for scholarships and fellowships	(53,943)	(48,138)
Facilities and administrative cost recoveries	28,447	28,248
Other operating revenue	10,642	9,327
Net cash provided (used) by operating activities	25,509	(14,442)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts	2,356	775
Nonexchange grants and contracts	52,493	46,179
Contributions to (due from) related entities	(962)	(4,153)
Due to (due from) affiliates	(55,955)	(23,603)
Other noncapital financing activities	62	39
Net cash provided (used) by noncapital financing activities	(2,006)	19,237
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(3,532)	(4,795)
Net cash used by capital and related financing activities	(3,532)	(4,795)
Net increase/(decrease) in cash and cash equivalents	19,971	—
Cash and cash equivalents - beginning of year	—	—
Cash and cash equivalents - end of year	\$ 19,971	\$ —
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating gain/(loss)	\$ 16,466	\$ (31,351)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	6,362	6,052
Loss on equipment disposals	57	—
Change in assets and liabilities:		
Accounts receivable	5,291	4,367
Inventories	(51)	—
Other assets	—	(89)
Accounts payable and accrued liabilities	(1,094)	3,890
Grant advances	(148)	1,650
Other long-term liabilities	2,776	(8,335)
Deferred outflows of resources	(2,315)	191
Deferred inflows of resources	(1,835)	9,183
Net cash provided (used) by operating activities	\$ 25,509	\$ (14,442)

See notes to financial statements

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**Notes to Financial Statements**  
**June 30, 2020 and 2019**

**1. Organizations and Summary of Significant Accounting Policies**

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

a. Basis of Presentation

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

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

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

b. Cash and Cash Equivalents

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

c. Accounts Receivable

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

d. Inventories

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

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
**A Component Unit of the University of Louisville**  
**Notes to Financial Statements**  
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e. Capital Assets

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

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

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

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

f. Deferred Inflows and Outflows of Resources and Net Position

The Foundation reports deferred outflows of resources, deferred inflows of resources and net position in its statement of net position and related disclosures. Deferred outflows of resources of \$3.4 million for the year ended June 30, 2020, consist of future payments to be made for other post-employment benefits and changes to assumptions used to calculate the future liability. Deferred inflows of resources of \$10.1 million as of June 30, 2020 consist of changes in the other post-employment benefits liability and will be amortized into expenses in future periods.

g. Grant Advances

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

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

In the case of advanced funding, the Research Foundation receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor in the event the project is not completed to the sponsor's satisfaction. These funds, totaling approximately \$11.1 million and \$11.3 million as of June 30, 2020 and 2019, respectively, are recorded as a liability in the Research Foundation's financial statements as grant advances and recognized as revenue as reimbursable cost are incurred.

h. Compensated Absences

Research Foundation policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment.

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Expense and the related liability are recognized as the vacation or sick benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

i. Net Position

The net position of the Research Foundation is classified in three components.

- a. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- b. *Restricted expendable* net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Research Foundation.
- c. *Unrestricted* net position consists of the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the Research Foundation'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):

	<u>2020</u>	<u>2019</u>
Net investment in capital assets	\$ 53,547	\$ 56,423
Restricted expendable for:		
Research	17,982	20,261
Instruction	4,351	122
Public service	2,558	3,097
Academic support	5	6
Institutional support	2,824	2,097
Unrestricted	18,967	(52,187)
Total net position	<u>\$ 100,234</u>	<u>\$ 29,819</u>

j. Revenue and Expense Classifications

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

Operating revenues include activities that have the characteristics of exchange transactions, meaning revenues are received in exchange for goods and services, such as (1) clinical services, (2) grants and contracts, and (3) facilities and administrative cost recoveries. With the exception of interest expense and contributions to related entities, all expense transactions are classified as operating expenses.

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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 contracts or grants such as Pell and CARES Act, gifts and investment income.

k. Net Clinical Services Revenue

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

l. Government Grants

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

m. Tax Status

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

n. Use of Estimates

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

o. Reclassifications

Certain 2019 amounts have been reclassified to conform to the 2020 presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statement of revenues, expense and changes in net position. These reclassifications had no effect on the change in net position.

p. Recent Accounting Pronouncements and Restatement

As of June 30, 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 Research Foundation during the year ending June 30, 2020. The following statements will be implemented in future reporting periods.

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GASB Statement No. 84, *Fiduciary Activities*. This pronouncement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting. The Research Foundation 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 Research Foundation 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 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit. The Research Foundation 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 Research Foundation 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 Research Foundation 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 Research Foundation 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 Research Foundation has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

q. 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 Research Foundation, 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. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

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**2. Cash and Cash Equivalents**

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

The University currently uses commercial banks and the Commonwealth of Kentucky (the Commonwealth) as its depositories. Deposits with commercial banks are covered up to the limits federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The Research Foundation does not have a formal policy addressing custodial credit risk.

**3. Transactions with Related Entities**

a. Contributions with Related Entities

The University provides certain facilities and administrative services to the Research Foundation for a share of the facilities and administrative cost recoveries. The current agreement provides for a transfer of 80%, after certain deductions, of the cost recoveries realized. Transfers from the Research Foundation to the University for their portion of cost recoveries totaled \$11.6 million and \$10.2 million for the years ended June 30, 2020 and 2019, respectively.

Research and operational support provided by University totaled \$12.4 million and \$7.3 million for the years ending June 30, 2020 and 2019, respectively.

The Research Foundation transferred \$3.5 million related to capital projects and debt service payments during each of years ended June 30, 2020 and 2019 to the University. These transfers relate to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University.

For each of the years ended June 30, 2020 and 2019, the Research Foundation was the recipient of \$1.8 million and \$2.0 million, respectively, from related entities to assist in funding cost share required by certain sponsored programs and grants.

b. Receivables With Related Entities

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. The outstanding note balance was \$4.0 million and \$4.87 million as of June 30, 2020 and 2019, respectively.

In relation to the academic and programmatic support provided by 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.

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c. Guarantees

A memorandum of understanding dated April 2017 between the Research Foundation and ULP establishes obligations of the Research Foundation in the event ULP does not meet certain requirements under a lease agreement with PMOB, Inc. PMOB, Inc. had 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.

d. Sale of Passport Health Plan

On May 10, 2019 Evolent Health Inc. (Evolent) and ULP, Norton Healthcare, Inc., UMC, Jewish Heritage Fund for Excellence, Inc. and Louisville Primary Care Association reached an agreement whereby Evolent would buy a 70% stake in Passport Health Plan for \$70 million. The transaction resulted in a receivable of \$15 million from ULP for the Research Foundation's involvement in patient care. The outstanding balance is \$4.3 million and \$15.0 million as of June 30, 2020 and 2019, respectively.

**4. Accounts Receivable, net**

Accounts receivable, net as of June 30, 2020 and 2019, are summarized as follows (in thousands):

	<b>2020</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Patient care	\$ 33,977	\$ (20,326)	\$ 13,651
Sponsored agreements	28,781	(1,764)	27,017
Total	\$ 62,758	\$ (22,090)	40,668
Current portion			40,128
Noncurrent portion			\$ 540

**UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.**  
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	<b>2019</b>		
	<b>Gross Receivable</b>	<b>Allowance</b>	<b>Net Receivable</b>
Patient care	\$ 56,221	\$ (36,621)	\$ 19,600
Sponsored agreements	28,121	(1,763)	26,358
Total	\$ 84,342	\$ (38,384)	45,958
Current portion			45,243
Noncurrent portion			\$ 715

**5. Capital Assets, net**

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

	<b>2020</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Cost - Nondepreciable</b>					
Land	\$ 351	\$ —	\$ —	\$ —	\$ 351
Construction in progress	217	—	—	(217)	—
Subtotal	568	—	—	(217)	351
<b>Cost - Depreciable</b>					
Buildings	70,727	—	—	217	70,944
Infrastructure	929	—	—	—	929
Land improvements	237	—	—	—	237
Equipment	90,793	3,529	(1,126)	—	93,196
Leasehold improvements	818	—	—	—	818
Library materials	59	3	—	—	62
Subtotal	163,563	3,532	(1,126)	217	166,186
Total capital assets-cost	164,131	3,532	(1,126)	—	166,537
<b>Accumulated depreciation</b>					
Buildings	25,827	2,748	—	—	28,575
Infrastructure	87	15	—	—	102
Land improvements	58	6	—	—	64
Equipment	80,959	3,585	(1,069)	—	83,475
Leasehold improvements	732	6	—	—	738
Library materials	45	2	—	—	47
Total capital assets-cost	107,708	6,362	(1,069)	—	113,001
Capital assets, net	\$ 56,423	\$ (2,830)	\$ (57)	\$ —	\$ 53,536

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	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Cost - Nondepreciable</b>					
Land	\$ 352	\$ —	\$ (1)	\$ —	\$ 351
Construction in progress	—	217	—	—	217
Subtotal	352	217	(1)	—	568
<b>Cost - Depreciable</b>					
Buildings	70,727	—	—	—	70,727
Infrastructure	929	—	—	—	929
Land improvements	237	—	—	—	237
Equipment	86,581	4,579	(367)	—	90,792
Leasehold improvements	818	—	—	—	818
Library materials	59	—	—	—	59
Subtotal	159,351	4,579	(367)	—	163,562
Total capital assets-cost	159,703	4,796	(368)	—	164,130
<b>Accumulated depreciation</b>					
Buildings	22,984	2,843	—	—	25,827
Infrastructure	71	16	—	—	86
Land improvements	52	6	—	—	58
Equipment	78,147	3,179	(367)	—	80,959
Leasehold improvements	726	6	—	—	732
Library materials	43	2	—	—	45
Total capital assets-cost	102,023	6,052	(367)	—	107,707
Capital assets, net	\$ 57,680	\$ (1,256)	\$ (1)	\$ —	\$ 56,423

**6. Other Liabilities**

Other liabilities of the Research Foundation consisted of the following at June 30, 2020 and 2019 (in thousands):

	<b>2020</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Other postemployment benefits	\$ 23,952	\$ 2,776	\$ —	\$ 26,728	\$ —	\$ 26,728
Other long-term liabilities	22	—	—	22	—	22
Total	\$ 23,974	\$ 2,776	\$ —	\$ 26,750	\$ —	\$ 26,750

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**2019**

	<b>Beginning Balance (as restated)</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Other postemployment	\$ 32,348	\$ —	\$ (8,396)	\$ 23,952	\$ —	\$ 23,952
Other long-term liabilities	(39)	61	—	22	—	22
<b>Total</b>	<b>\$ 32,309</b>	<b>\$ 61</b>	<b>\$ (8,396)</b>	<b>\$ 23,974</b>	<b>\$ —</b>	<b>\$ 23,974</b>

**7. Revenues From Clinical Services, Contractual Services and Practice Plans**

a. Clinics and Laboratories

The University's Health Science Center operates various clinics, which generate revenues from the treatment of patients, as well as laboratory services. Net revenues associated with the operations of these clinics totaled approximately \$124.8 million and \$120.9 million for the years ended June 30, 2020 and 2019, respectively.

On May 10, 2019 Evolent Health Inc. (Evolent), ULP, Norton Healthcare, Inc., University Medical Center (UMC), Jewish Heritage Fund for Excellence, Inc. and Louisville Primary Care Association reached an agreement whereby Evolent would buy a 70% stake in Passport Health Plan for \$70 million. In connection to the sale, ULP agreed to pay the Research Foundation an additional \$15.0 million for mission support of the Medical School. The additional support was used to offset prior and foreseen operating shortfalls in Medical School practices. The funds were included in clinical revenues as of June 30, 2019.

b. University Medical Center

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 healthcare 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.

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 profit share contribution for June 30, 2020 was \$37 million.

c. Norton Healthcare

The University entered into an agreement with Norton Hospitals, 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 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

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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 agreement 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.

d. Other Clinical Revenues

The Research Foundation works with other area hospitals by providing support services, such as residents and other staff. Revenues associated with these activities totaled approximately \$40.5 million and \$53.4 million for the years ended June 30, 2020 and 2019, respectively.

**8. Expenses**

Operating expenses by natural classification for the years ended June 30, 2020 and 2019 were approximately (in thousands):

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 224,944	\$ 234,756
Employee benefits	49,816	54,621
Supplies and services	104,405	103,460
Depreciation	6,362	6,052
Scholarships and fellowships	53,943	48,138
Total	<u>\$ 439,470</u>	<u>\$ 447,027</u>

**9. 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

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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 accompanying Statements of Revenues, Expenses, and Changes in Net Position.

**10. Retirement Plan**

University personnel participate in a contributory retirement plan administered by the University. The University of Louisville 403(b) Retirement Plan (Retirement Plan) was established by the University and approved by the Board of Trustees. Permanent, full-time employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. The Retirement 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.

The Research Foundation recorded expenses related to the defined contribution plan of approximately \$12.3 million and \$15.2 million during the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the Research Foundation had no outstanding liability related to the Retirement Plan.

**11. Postemployment Healthcare Benefits**

a. Plan Description

University personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. The Plan is a single-employer plan and the University's Board of Trustees determines the eligibility requirements related to the Plan. The Plan does not issue stand-alone financial reports and is not included in the report of any entity.

To be eligible for the Plan, a retired employee must be the earlier of the attainment of age 60 with seven years of service in eligible faculty or staff status, or the date that the sum of the employee's age and years of regular service of not less than 80% full-time equivalent at the University equals or exceeds 75.

At July 1, 2019, the following employees were covered by the benefit terms.

Inactive plan members	1,524
Active plan members	5,578
Total	<u>7,102</u>

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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:

	<b>2020</b>			
	<b>PPO</b>	<b>EPO</b>	<b>PCA High</b>	<b>PCA Low</b>
Employee	\$364	\$385	\$306	\$257
Employee and Spouse	\$874	\$924	\$734	\$617
	<b>2019</b>			
	<b>PPO</b>	<b>EPO</b>	<b>PCA High</b>	<b>PCA Low</b>
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.

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

	Total OPEB Liability
Balances at 6/30/2019	\$ 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 healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (in thousands):

	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 healthcare 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 healthcare cost trend rate (in thousands):

	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 (in thousands):

	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

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

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

<u>Year ended June 30:</u>	
2021	\$ (3,212)
2022	(3,212)
2023	(3,212)
2024	(3,212)
2025	(3,212)
Thereafter	(5,491)
	<u>\$ (21,551)</u>

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 healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates 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 healthcare 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, 2020 was 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

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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.

**12. Commitments and Contingencies**

a. Commitments

At June 30, 2020 and 2019, respectively, the Research Foundation had approximately \$2.2 million and \$1.2 million in encumbrance's outstanding related mainly to operational expenses for future expenditures.

b. Litigation

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

c. Government Grants

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

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	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
<b>Total OPEB liability</b>			
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	<u>\$ 74,239</u>	<u>\$ 64,730</u>	<u>\$ 88,843</u>
 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.