

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**

**A Component Unit of the Commonwealth of Kentucky**

**Auditor's Report and Financial Statements  
June 30, 2021 and 2020**

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**  
**A Component Unit of the Commonwealth of Kentucky**  
**For the Years Ended June 30, 2021 and 2020**

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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), collectively a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2021 and 2020, 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 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 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 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, collectively a component unit of the Commonwealth of Kentucky, as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis on pages 4 through 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 Corporation

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2021, 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**

St. Louis, Missouri  
October 19, 2021

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**  
**A Component Unit of the Commonwealth of Kentucky**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Years Ended June 30, 2021 and 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, 2021 and 2020. Comparative information for the year ended June 30, 2019 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 alongside 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 Hurst Campus is located in eastern Jefferson County. This campus houses business offices and technology endeavors. 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**

The University has affiliations with corporations that are designated as discretely presented component units due to the nature of the corporation's activities and operations. 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, 2021, were \$958.7 million, an increase of \$251.2 million from the June 30, 2020 balance of \$707.5 million.

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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.

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.

On March 11, 2020, 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, healthcare, 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. The University enacted cost cutting measures including reducing salaries by 1% to 10% for a brief period, reduction of employer matching contributions to the 403(b) retirement plan, furlough of employees in areas impacted by the reduction or elimination of campus activities, and budgeted reductions to curtail spending and eliminating unnecessary travel. The University received federal stimulus funds totaling \$70.5 million through the Higher Education Emergency Relief Fund (HEERF) to help lessen the burden of additional cost and lost revenues brought on by the Pandemic.

The University took measures to make the campus environments safe for faculty, staff, and students by mandating the use of masks in close settings, providing on campus testing sights, and real-time communications through emails and dedicated websites. The University, along with its affiliated hospital, offered COVID-19 vaccinations to the university population and the community at large.

The operations of the University have changed and evolved to meet the circumstances of a changing society. Further adaptive measures are anticipated to meet the needs of students, faculty, staff and the 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 Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities.

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**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, 2021, 2020, and 2019 (in thousands) is summarized below:

	2021	2020	2019	2021-2020 Change	2020-2019 Change
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>					
Current assets	\$ 392,509	\$ 261,092	242,335	\$ 131,417	\$ 18,757
Other long-term investments	26,812	14,166	17,271	12,646	(3,105)
Capital assets, net	1,069,819	1,078,175	976,355	(8,356)	101,820
Other	131,166	150,678	82,255	(19,512)	68,423
Deferred outflows of resources	17,305	13,687	8,080	3,618	5,607
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,637,611</b>	<b>1,517,798</b>	<b>1,326,296</b>	<b>119,813</b>	<b>191,502</b>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>					
Current liabilities	195,393	163,319	183,370	32,074	(20,051)
Noncurrent liabilities	400,774	373,204	329,765	27,570	43,439
Deferred inflows of resources	61,480	65,829	82,129	(4,349)	(16,300)
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>657,647</b>	<b>602,352</b>	<b>595,264</b>	<b>55,295</b>	<b>7,088</b>
<b>NET POSITION</b>					
Net investment in capital assets	800,980	825,433	716,400	(24,453)	109,033
Restricted - nonexpendable	1,868	1,349	4,710	519	(3,361)
Restricted - expendable	73,377	84,417	79,510	(11,040)	4,907
Unrestricted	103,739	4,247	(69,588)	99,492	73,835
<b>TOTAL NET POSITION</b>	<b>979,964</b>	<b>915,446</b>	<b>731,032</b>	<b>64,518</b>	<b>184,414</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,637,611</b>	<b>\$ 1,517,798</b>	<b>\$ 1,326,296</b>	<b>\$ 119,813</b>	<b>\$ 191,502</b>



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**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 \$131.4 million for the year ended June 30, 2021, as compared to June 30, 2020, is mainly attributed to increases in cash and equivalents of \$64.4 million, due from affiliates of \$38.1 million, and loans, accounts and contributions receivable, net of \$32.7 million. The increase in cash and cash equivalents is the product of the University's diligence in controlling expenditures. The increase in due from affiliates is mainly the current year profit share from UL Health, which is stipulated in the corporation's purpose to support the medical school endeavors of the University. The increase in loans, and accounts and contributions receivable are related to ongoing operations.

Noncurrent assets decreased \$27.9 million in fiscal 2021, with due from affiliates contributing a decrease of \$27.8 million along with a decrease in capital assets of \$8.4 million. An increase in restricted cash of \$7.1 million for proceeds of debt for capital asset construction and an increase in other long-term investments of \$12.6 million offset the balance decreases. Other long-term investments are investments with maturities over one year and increased due to cash available to allocate to long-term facilities.

In fiscal year 2020, current assets increased \$18.8 million is mainly attributed to an increase in cash and equivalents of \$38.0 million, offset by reductions in \$10.3 million in funds due from affiliates and a reduction of \$5.8 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.

Noncurrent assets increased \$167.1 million in fiscal 2020. 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.

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net assets applicable to a future period. These balances consist primarily of losses on bond refinancing that will be amortized to interest expense over the life of the refinanced debt and of future payments to be made for other postretirement employment benefits (OPEB). In fiscal year 2021, deferred outflows increased \$3.6 million to \$17.3 million as compared to \$13.7 million as of June 30, 2020.

The increase in deferred outflows of resources as of June 30, 2020, was \$5.6 million over the balance of \$8.1 million as of June 30, 2019.

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**Liabilities**

Current liabilities increased by \$32.1 million in fiscal year 2021 as compared to 2020. Accounts payable and accrued liabilities account for \$24.0 million of the increase. A line of credit was obtained by the Association during the fiscal year 2021 and accumulated draws of \$9.0 million account for a portion of the increase in current liabilities.

Noncurrent liabilities increased \$27.6 million during fiscal year 2021. Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. This balance increased by \$24.5 million primarily from new bond issuance and master lease draws offset by normal principal payments. Other long-term liabilities includes future estimated payments for OPEB which increased by \$6.0 million.

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. The \$43.4 million increase in noncurrent liabilities during fiscal year 2020 primarily is due to a 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.

**Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position that applies to future periods. Deferred inflows decreased by \$4.3 million during fiscal year 2021. The University recognized a reduction of \$2.6 million deferred inflows that reflect receipts related to service concession arrangements for food service, bookstore, and printing services. Deferred inflows decreased \$2.8 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 expense over a period equal to the average of the expected remaining service lives of all employees that are provided benefits. The University recorded a deferred inflow of \$1.0 million for a deferred loss on debt refinancing.

In fiscal year 2020, the University recognized a decrease of \$16.3 million. 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.

**Net Position**

In fiscal year 2021, net position increased \$64.5 million. This increase is attributed to a concerted effort to control expenditures due to the uncertainty of fully continuing operations brought on by the Pandemic. Continued operational efficiencies from clinical and practice plans affiliation agreements also add to the reduction of the operating loss. The operating loss of the University was \$16.8 million less than the prior year. This coupled with the increase in nonoperating revenues from HEERF stimulus funding presented in nonexchange grants and contracts allowed the University to circumvent potential financial downturn for the fiscal year ending June 30, 2021.

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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.

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

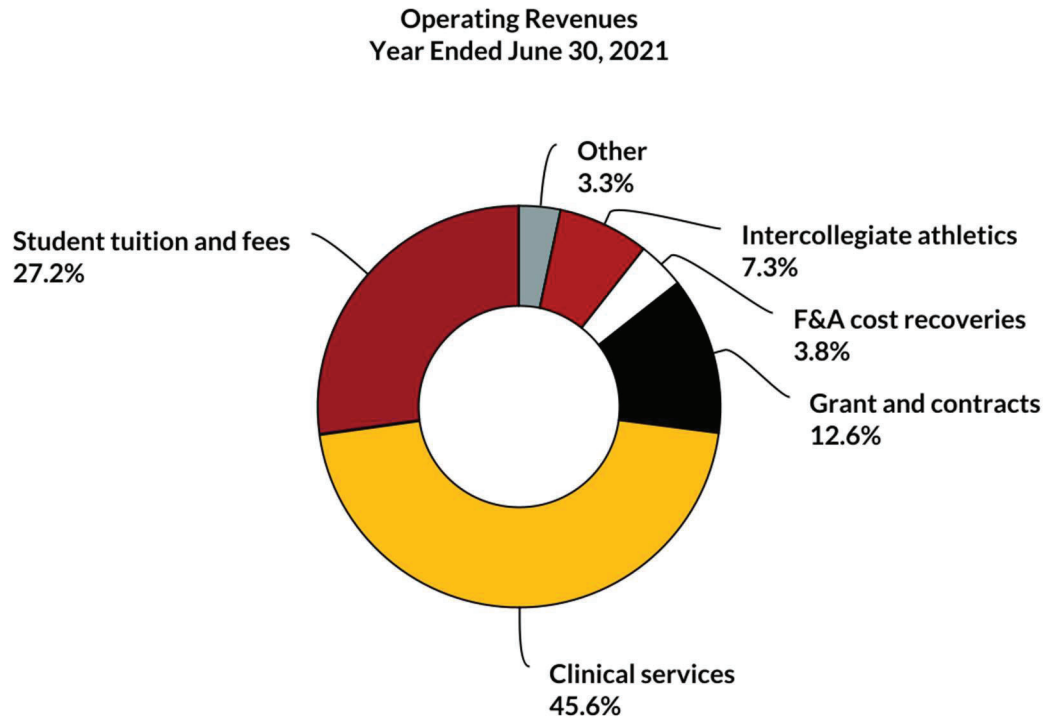
The University's condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2021, 2020, and 2019 (in thousands) are summarized below:

	2021	2020	2019	2021-2020 Change	2020-2019 Change
<b>OPERATING REVENUES</b>					
Student tuition and fees, net	\$ 231,505	\$ 227,233	\$ 223,173	\$ 4,272	\$ 4,060
Clinical services and practice plan	388,069	329,392	287,393	58,677	41,999
Grants and contracts	107,418	109,399	105,840	(1,981)	3,559
Facilities and administrative cost	32,434	28,452	28,248	3,982	204
Intercollegiate athletics	62,384	86,559	86,826	(24,175)	(267)
Other	28,373	35,818	37,799	(7,445)	(1,981)
<b>TOTAL OPERATING REVENUE</b>	<b>850,183</b>	<b>816,853</b>	<b>769,279</b>	<b>33,330</b>	<b>47,574</b>
<b>OPERATING EXPENSES</b>					
Depreciation	57,780	56,840	52,213	940	4,627
Other	994,553	978,913	1,013,360	15,640	(34,447)
<b>TOTAL OPERATING EXPENSE</b>	<b>1,052,333</b>	<b>1,035,753</b>	<b>1,065,573</b>	<b>16,580</b>	<b>(29,820)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State appropriations	125,420	128,712	128,930	(3,292)	(218)
Other nonoperating revenues	141,248	142,189	190,707	(941)	(48,518)
<b>TOTAL NONOPERATING REVENUE/(EXPENSES)</b>	<b>266,668</b>	<b>270,901</b>	<b>319,637</b>	<b>(4,233)</b>	<b>(48,736)</b>
<b>INCREASE/(DECREASE) IN NET POSITION</b>	<b>64,518</b>	<b>52,001</b>	<b>23,343</b>	<b>12,517</b>	<b>28,658</b>
<b>SPECIAL ITEMS</b>					
Transfer of operations	—	132,413	—	(132,413)	132,413
<b>INCREASE/(DECREASE) IN NET POSITION AFTER SPECIAL ITEMS</b>	<b>64,518</b>	<b>184,414</b>	<b>23,343</b>	<b>(119,896)</b>	<b>161,071</b>
<b>Net position - beginning of year</b>	<b>915,446</b>	<b>731,032</b>	<b>707,689</b>	<b>184,414</b>	<b>23,343</b>
<b>Net position - end of year</b>	<b>\$ 979,964</b>	<b>\$ 915,446</b>	<b>\$ 731,032</b>	<b>\$ 64,518</b>	<b>\$ 184,414</b>

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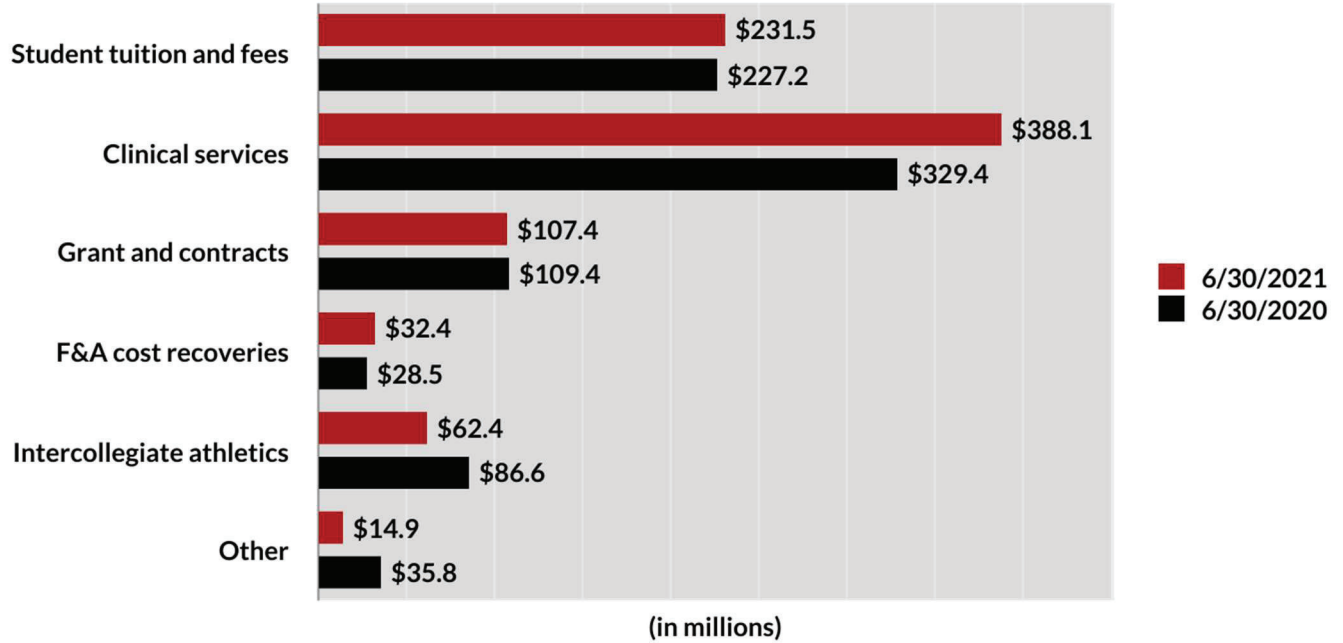
**Operating Revenues**

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, 2021 and 2020:



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**Operating Revenue Trends**



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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 \$231.5 million and \$227.2 million, or 27.2% and 27.8% of total operating revenues for the years ended June 30, 2021 and 2020, respectively. The University adopted a 2.0%-3.0% gross tuition rate increase for fiscal year 2021 and had a 2.5% gross tuition rate increase for fiscal year 2020. 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 years 2021 and 2020, scholarship and financial aid expense was about the same providing a 30.5% and 30.3% discount of tuition and fee expense, respectively. Enrollment for the fall and spring semesters of fiscal year 2021 were stable and reflected the University's successful pivot to online and virtual instruction for all classes during the 2020-2021 academic year. The University never ceased campus operations and never cancelled class offerings during the Pandemic.

Clinical services and practice plan revenue amounted to \$388.1 million and \$329.4 million, or 45.6% and 40.3% of total operating revenues for fiscal years 2021 and 2020, 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 17.8% increase in revenue for 2021 totaling \$58.7 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. The university also negotiated rental and license agreements with UL Health that were effective during the fiscal year June 30, 2021.

Revenue from operating grants and contracts were \$107.4 million and \$109.4 million for the years ended June 30, 2021 and 2020, respectively, a decrease of \$2.0 million. This decrease in fiscal year 2021 consists of a decline in nongovernment grants and contracts of \$6.1 million, offset by an increase in federal and state contracts.

The University's grants and contracts from government and private sources normally provide for the recovery of indirect or overhead costs. Facilities and administrative (F&A) cost recoveries were \$32.4 million and \$28.5 million for the years ended June 30, 2021 and 2020, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

Intercollegiate athletics revenues and other revenues, which includes auxiliary revenues were affected by the Pandemic during the fiscal year ending June 30, 2021. Attendance at athletic events were restricted to a percentage of capacity resulting in significant revenue losses. Revenues for intercollegiate athletics were \$62.4 million for the year ended June 30, 2021, a reduction of \$24.2 million from \$86.6 million for the year ended June 30, 2020. The 27.9% reduction was mostly in ticket sales from football and basketball. Auxiliary revenues from housing and parking were reduced by \$1.5 million during the year ended June 30, 2021, as compared to the year ended June 30, 2020. Although campus did not close during the year, there was a decline in demand for campus housing, meal plans, and parking services since classes were primarily virtual.

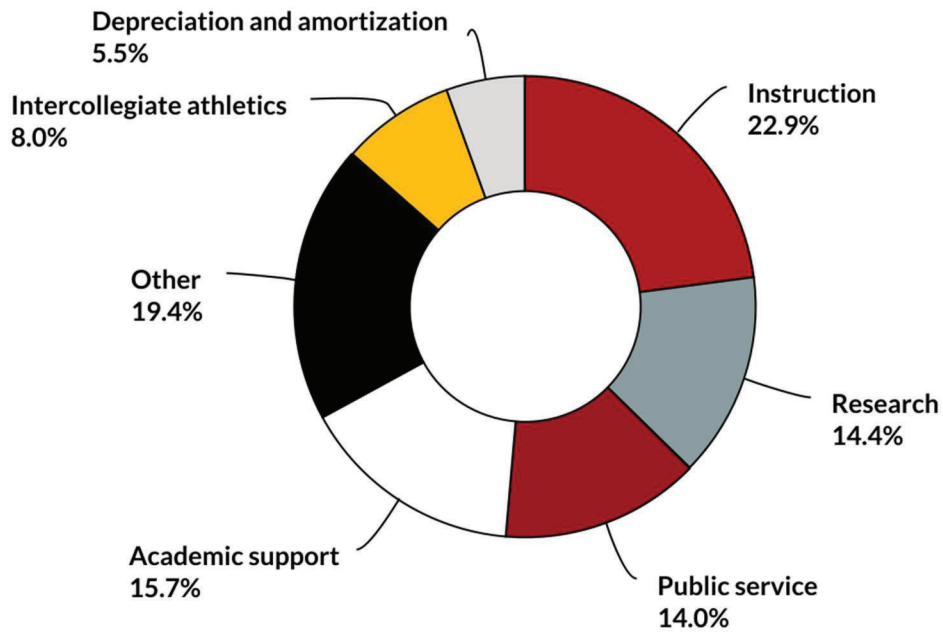
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Operating revenues increased \$47.6 million in fiscal year 2020 over fiscal year 2019. The most significant increases coming from clinical services and practice plan of \$42.0 million due to increased programmatic support, and tuition and fees of \$4.1 million due to an increase in the tuition rate. Overall, revenues from grants and contracts increased \$3.6 million with an increase in nongovernmental grants and contracts of \$6.9 million and a combined decrease in federal and state grants and contracts of \$3.5 million.

**Operating Expenses**

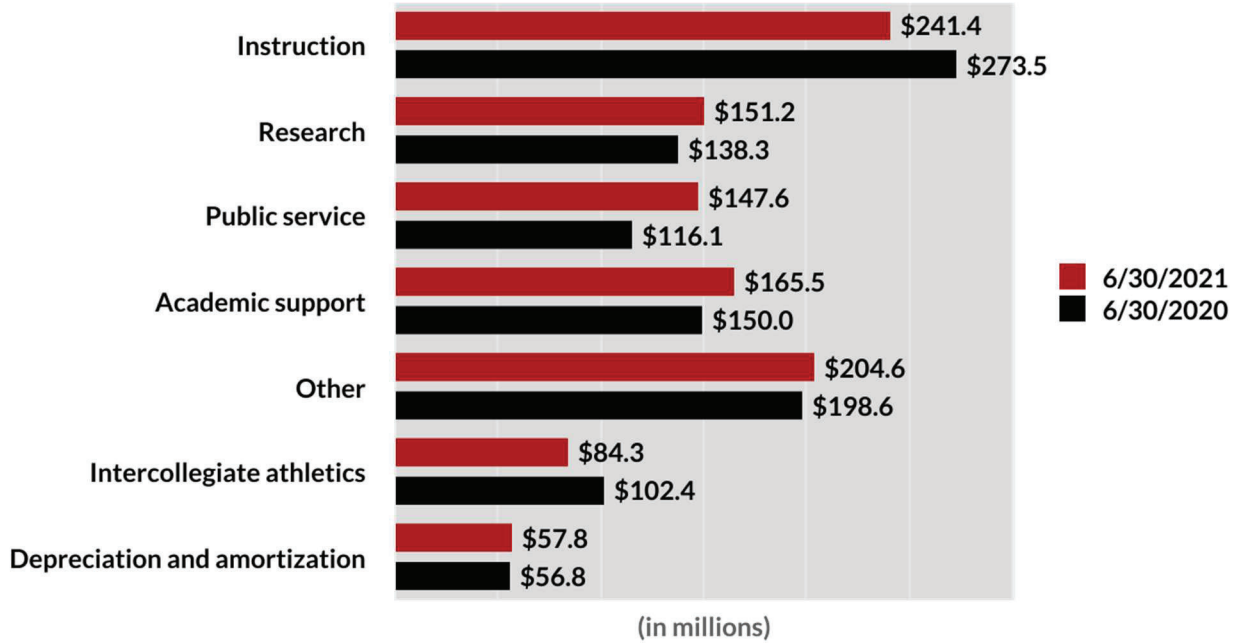
Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2021 and 2020, are summarized below:

**Operating Expenses by Functional Classification**  
**Year Ended June 30, 2021**

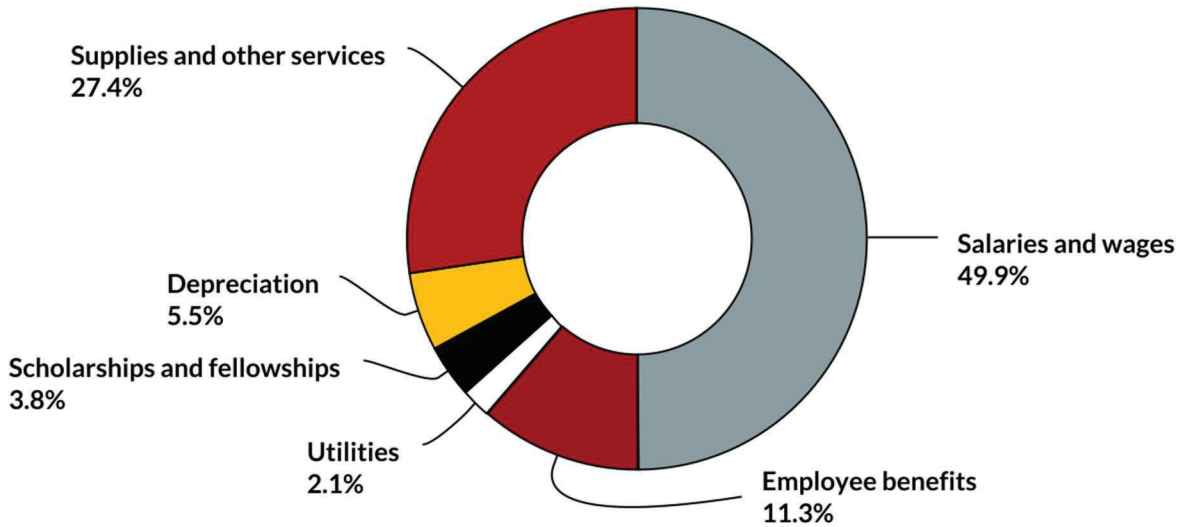


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**Functional Expense Trends**

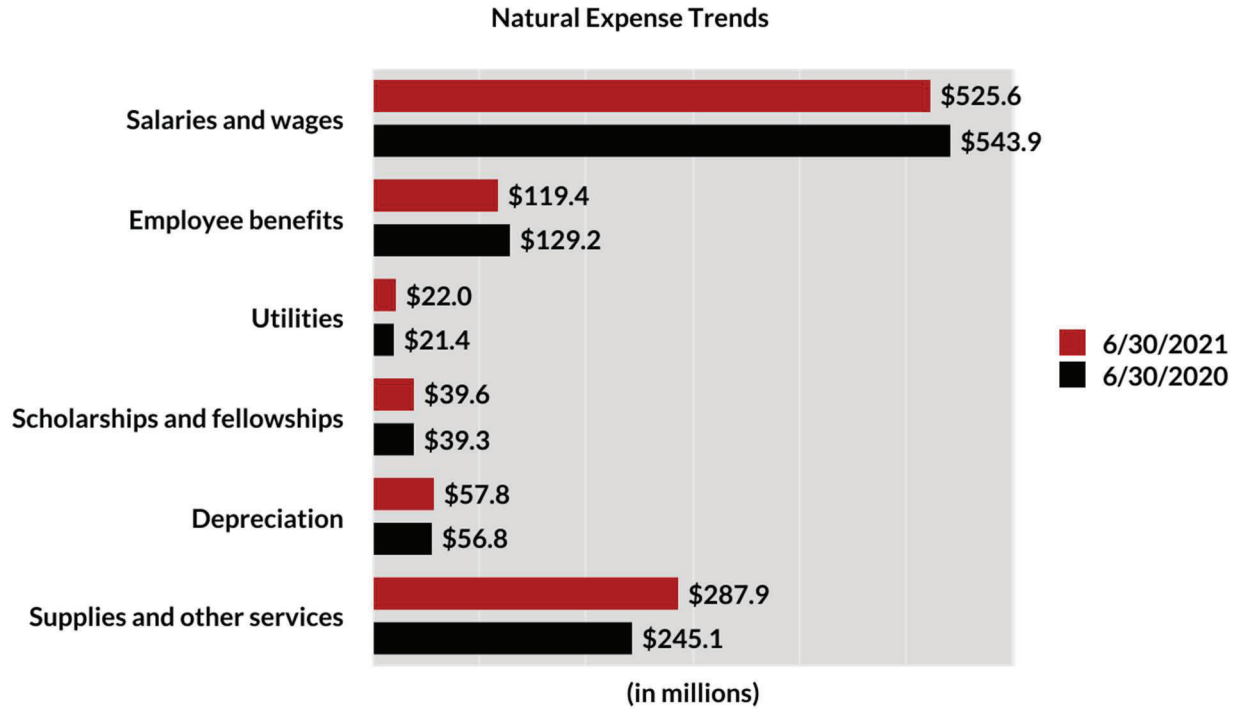


**Operating Expenses by Natural Classification**  
Year Ended June 30, 2021





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Operating expenses were \$1.05 billion and \$1.04 billion and exceeded operating revenues by \$202.2 million and \$218.9 million for the years ended June 30, 2021 and 2020, respectively. In fiscal 2021, operating expenses increased \$16.6 million or 1.6%. Expenses in most functional classifications increased, the most significant being instruction of \$32.1 million and intercollegiate athletics of \$18.1 million. Across the University, cost saving measures were enacted in response to the Pandemic. Noncritical 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 totaling \$28.1 million due to temporary salary cuts, furloughs, and reduction in retirement benefits. These savings were offset by an increase in supplies and other services of \$42.8 million mainly for an increase in intergovernmental transfers for the state Medicaid program related to increased clinical activities.

Operating expenses decreased \$29.8 million in fiscal year 2020 over fiscal year 2019. The most significant decreases were in public service of \$5.9 million, instruction of \$12.3 million, and intercollegiate athletics of \$21.6 million and were primarily driven by cost saving measures enacted in response to the Pandemic.

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**Nonoperating Revenues (Expenses)**

Nonoperating revenue and expenses, net, experienced an overall decrease of \$4.2 million in fiscal year 2021. Many categories experienced a decrease in revenues. State appropriations were reduced by 2% resulting in a reduction of \$3.3 million, gifts and donations experienced a decrease of \$14.4 million, and contributions from the Foundation declined \$7.4 million. The decline in Foundation contributions are directly attributed to reductions in spending at the University as the Foundation contributions are gift and endowment funds used for University expenditures. Investment income also declined \$1.5 million as interest rates remain low. These declines were offset by an increase in nonexchange grants and contracts of \$23.6 million. A significant portion of this increase are the HEERF funds received by the University for student financial aid and institutional cost related to COVID-19.

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 million 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.

**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, 2021, 2020, and 2019 (in thousands) are summarized below:

	2021	2020	2019	2021-2020 Change	2020-2019 Change
<b>CASH (USED)/PROVIDED BY:</b>					
Operating activities	\$ (161,306)	\$ (175,912)	\$ (208,839)	\$ 14,606	\$ 32,927
Noncapital financing activities	267,468	249,148	256,510	18,320	(7,362)
Capital and related financing activities	(25,514)	217	(39,838)	(25,731)	40,055
Investing activities	(9,166)	11,308	(18,093)	(20,474)	29,401
<b>NET (DECREASE)/INCREASE IN CASH EQUIVALENTS</b>	<b>71,482</b>	<b>84,761</b>	<b>(10,260)</b>	<b>(13,279)</b>	<b>95,021</b>
Cash and cash equivalents - beginning of year	191,156	106,395	116,655	84,761	(10,260)
Cash and cash equivalents - end of year	\$ 262,638	\$ 191,156	\$ 106,395	\$ 71,482	\$ 84,761

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Total cash and cash equivalents increased by \$71.5 million during fiscal year 2021 due to concerted efforts by the University to manage expenditures during the Pandemic, increased clinical revenues, and financing of a new construction project. Cash used in operations decreased by \$14.6 million in fiscal year 2021 as compared to fiscal year 2020 as a result of the reductions made in operating expenses from reduced salaries and furloughs along with reduced spending on supplies and services. Reductions in net revenues from intercollegiate athletics, and grants and contracts offset the savings in cost-cutting measures.

Net cash provided by noncapital financing activities increased \$18.3 million, providing \$256.2 million in fiscal year 2021 as compared to \$249.1 million in fiscal year 2020. The largest contributors to the increase were an increase in nonexchange grants and contracts of \$23.6 million which is attributed mainly to the HEERF funding utilized, and a decrease in gifts and donations of \$14.4 million mainly attributed to reduced athletic donations brought on by restrictions on ticket sales related to the Pandemic.

The University net consumed \$25.5 million in cash for capital and related financing during fiscal year 2021, \$25.7 million greater than prior year. Capital assets constructed or purchased increased by \$31.0 million mainly related to the construction of the first of two new dormitories. Proceeds from the issuance of bonds for construction of the second dormitory off set the cash used for principle and interest payments during the year resulting in a net decrease in funds used attributable to debt of \$1.8 million.

Investing activities resulted in a usage of cash of \$9.2 million during fiscal year 2021. The net decrease is a result of proceeds from maturing investments less than reinvested funds used to purchase investments, totaling \$12.1 million, supplemented by cash from investment earnings totaling \$2.9 million.

Total cash and cash equivalents increased by \$84.8 million in fiscal year 2020 as compared to fiscal year 2019. Cash used by operating activities decreased \$32.9 million 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 \$31.1 million in fiscal year 2020 by executing contracts for pediatric operations and hospital operations that maximized profitability. Cash provided by noncapital financing activities decreased \$7.4 million. 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. Cash consumed by capital and financing activities was reduced by \$40.1 million in fiscal year 2020 as compared to fiscal year 2019. 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 principal 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.

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**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 facilities and renovate existing facilities to meet the needs of students, faculty, and staff. Infrastructure and building projects completed during the year are offset by depreciation of these assets. The University's capital assets, net of depreciation, decreased by \$8.3 million. The most significant capital projects and acquisitions completed during the fiscal year ended June 30, 2021, are listed below (in millions):

Project	Capitalized Cost
Construction of Dormitory #1	\$ 37.5

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

Project	Estimated Budget
Construct Dormitory #2	\$ 40.0
Renovate Ekstrom Library	58.1
Replace HVAC various buildings	25.0
Purchase next generation ERP Support System	20.0
Biocontainment Laboratory Pressurization Upgrade	10.8
School of Nursing Renovation	11.4
IT Network Center	8.0
Research Capacity Infrastructure	7.0

**Debt and Financing Activities**

As of June 30, 2020, the University had outstanding \$310.0 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to \$288.3 million as of June 30, 2020. The \$21.7 million increase represents the net of paid principal of long-term debts offset by the following debt issuances: master lease obligations totaling \$0.4 million to fund purchases of equipment and capital assets, and an \$11.0 million note obtained to consolidate an outstanding note and lease for the Athletic Association. The University issued bonds for \$39.5 million to finance the construction of a second dormitory and a bond issuance of \$21.4 million to defease the remaining balance in the 2011 Series A bonds.

**Economic Factors That May Affect the Future**

The Pandemic declared on March 11, 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 its hospital affiliates, 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.

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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. Although it is anticipated that all instruction will be face-to-face for the 2021-2022 academic year and moving forward, it may be necessary to convert virtual instruction to comply with social distancing mandates or prevent further outbreaks.

The federal government has passed multiple stimulus bills that have resulted in \$135.4 billion in funding for the HEERF. The higher education sector, including the University, has been a beneficiary of these stimulus packages and will continue to utilize the funds throughout the 2021-2022 fiscal year.

The higher education landscape is evolving and the University is responding by adapting the services provided to meet these changing needs. Senior leadership continues to believe that it is financially well-positioned despite the impact of COVID-19 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 Pandemic will continue to have a significant impact on the University moving into fiscal year 2021-2022. The long-term effect of the Pandemic on social and economic aspects of every-day life is still unknown, as is the long-term effects on institutions of secondary education. Some of the significant disruptions to revenue streams or changes to the expense base that may be impacted by the Pandemic are as follows:

- The University may lose state appropriations from the Commonwealth of Kentucky as the state economy adjusts to changes in its tax base and allocation of available resources.
- 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 online delivery.
- 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 reduction 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 continue to be an incremental cost for 2022.

### **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**  
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**(in thousands)**

	University of Louisville		Discretely Presented Component Units	
	2021	2020	2021	2020
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 206,674	\$ 142,291	\$ 194,470	\$ 339,461
Short-term investments	7,853	6,574	176,356	115,178
Deposit with bond trustee and escrow agent	776	6,257	—	—
Loans, accounts and contributions	104,836	72,138	365,519	278,966
Due from affiliates	53,027	14,889	15,441	30,372
Inventories	6,278	5,445	47,004	30,670
Investments held with University of Louisville Foundation, Inc.	3,410	5,460	—	—
Other assets	9,655	8,038	60,704	46,416
<b>Total current assets</b>	<b>392,509</b>	<b>261,092</b>	<b>859,494</b>	<b>841,063</b>
Noncurrent assets				
Restricted cash and cash equivalents	55,964	48,865	—	—
Deposit with bond trustee and escrow agent	14,607	10,976	—	—
Loans, accounts and contributions	47,790	50,340	14,706	24,193
Due from affiliates	12,423	40,237	—	—
Other long-term investments	26,812	14,166	1,018,605	775,575
Other long-term assets	382	260	112,573	132,538
Capital assets, net	1,069,819	1,078,175	463,731	416,728
<b>Total noncurrent assets</b>	<b>1,227,797</b>	<b>1,243,019</b>	<b>1,609,615</b>	<b>1,349,034</b>
<b>Total assets</b>	<b>1,620,306</b>	<b>1,504,111</b>	<b>2,469,109</b>	<b>2,190,097</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>17,305</b>	<b>13,687</b>	<b>—</b>	<b>—</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,637,611</b>	<b>1,517,798</b>	<b>2,469,109</b>	<b>2,190,097</b>

See notes to financial statements

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	University of Louisville		Discretely Presented Component Units	
	2021	2020	2021	2020
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable and accrued liabilities	\$ 112,519	\$ 88,551	\$ 232,728	\$ 261,030
Line of credit	9,000	—	—	—
Unearned compensation and wages payable	1,537	2,699	112,445	76,413
Advances	50,894	47,853	96,280	69,627
Due to affiliate	—	—	35,823	26,157
Bonds and notes payable	21,443	24,216	5,046	5,063
<b>Total current liabilities</b>	<b>195,393</b>	<b>163,319</b>	<b>482,322</b>	<b>438,290</b>
Noncurrent liabilities				
Note payable to University of Louisville Foundation, Inc.	1,000	1,000	—	—
Unearned compensation and wages payable	949	2,549	—	—
Deposits	1,142	1,061	—	—
Advances	6,542	6,991	—	—
Amounts due to federal government for student loan programs	17,311	17,145	—	—
Due to affiliate	—	—	47,030	39,895
Other post-retirement benefits	80,238	74,239	—	—
Other long-term liabilities	5,045	6,130	54,011	134,274
Bonds and notes payable	288,547	264,089	131,481	151,259
<b>Total noncurrent liabilities</b>	<b>400,774</b>	<b>373,204</b>	<b>232,522</b>	<b>325,428</b>
<b>Total liabilities</b>	<b>596,167</b>	<b>536,523</b>	<b>714,844</b>	<b>763,718</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>61,480</b>	<b>65,829</b>	<b>—</b>	<b>—</b>
<b>NET POSITION</b>				
Net investment in capital assets	800,980	825,433	—	8,656
Restricted:				
Nonexpendable	1,868	1,349	650,132	484,984
Expendable	73,377	84,417	324,889	280,405
Unrestricted	103,739	4,247	779,244	652,334
<b>Total net position</b>	<b>979,964</b>	<b>915,446</b>	<b>1,754,265</b>	<b>1,426,379</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 1,637,611</b>	<b>\$ 1,517,798</b>	<b>\$ 2,469,109</b>	<b>\$ 2,190,097</b>

See notes to financial statements

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**  
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**Statements of Revenues, Expenses, and Changes in Net Position**  
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(in thousands)

	University of Louisville		Discretely Presented Component Units	
	2021	2020	2021	2020
<b>OPERATING REVENUES</b>				
Gross tuition and fees	\$ 333,392	\$ 325,851	\$ —	\$ —
Less: scholarship allowance	(101,887)	(98,618)		
Student tuition and fees, net	231,505	227,233		
Clinical services and practice plan	388,069	329,392	—	—
Patient service revenue	—	—	1,719,742	968,169
Federal grants and contracts	82,197	76,940	—	—
State and local grants and contracts	9,169	10,261	—	—
Nongovernmental grants and contracts	16,052	22,198	—	—
Sales and services of educational departments	1,629	2,236	—	—
Facilities and administrative cost recoveries	32,434	28,452	—	—
Auxiliary enterprises, net of discount of \$2,169 in 2021 and \$2,085 in 2020	13,493	15,041	—	—
Intercollegiate athletics	62,384	86,559	—	—
Hospital revenue	—	—	—	—
Other operating revenue	13,251	18,541	245,460	165,502
<b>Total operating revenue</b>	<b>850,183</b>	<b>816,853</b>	<b>1,965,202</b>	<b>1,133,671</b>
<b>OPERATING EXPENSES</b>				
Instruction	241,422	273,508	—	—
Research	151,233	138,322	—	—
Public service	147,573	116,147	—	—
Academic support	165,474	149,998	—	—
Student services	30,187	29,898	—	—
Institutional support	79,059	73,165	1,805,467	1,047,762
Operation and maintenance of plant	52,147	51,244	—	—
Scholarships and fellowships	35,920	37,259	—	—
Auxiliary enterprises	7,266	6,969	—	—
Intercollegiate athletics	84,272	102,403	—	—
Depreciation and amortization	57,780	56,840	47,723	34,155
Contributions to affiliates	—	—	49,903	66,885
<b>Total operating expense</b>	<b>1,052,333</b>	<b>1,035,753</b>	<b>1,903,093</b>	<b>1,148,802</b>
<b>Operating loss</b>	<b>(202,150)</b>	<b>(218,900)</b>	<b>62,109</b>	<b>(15,131)</b>

See notes to financial statements



**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**  
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	University of Louisville		Discretely Presented Component Units	
	2021	2020	2021	2020
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	\$ 125,420	\$ 128,712	\$ —	\$ —
Gifts and donations	21,322	35,684	38,636	58,877
Nonexchange grants and contracts	76,083	52,494	—	—
Contributions from University of Louisville Foundation, Inc.	42,412	49,770	—	—
Investment income	1,159	2,655	255,968	4,030
Realized and unrealized gain on investments	908	(2)	—	—
Interest on capital asset-related debt	(11,331)	(10,364)	—	—
Noncontrolling interest	—	—	—	—
Other nonoperating revenue (expense)	1,793	2,862	(28,827)	(3,808)
<b>Net nonoperating revenue</b>	<b>257,766</b>	<b>261,811</b>	<b>265,777</b>	<b>59,099</b>
<b>Income (loss) before other revenue, expense, gains and losses</b>	<b>55,616</b>	<b>42,911</b>	<b>327,886</b>	<b>43,968</b>
Capital appropriations	120	3,453	—	—
Capital gifts	8,782	5,637	—	—
<b>Total other revenue</b>	<b>8,902</b>	<b>9,090</b>	<b>—</b>	<b>—</b>
<b>Increase/(decrease) in net position</b>	<b>64,518</b>	<b>52,001</b>	<b>327,886</b>	<b>43,968</b>
<b>SPECIAL ITEMS</b>				
Transfer of operations	—	132,413	—	146,506
<b>Increase (decrease) in net position after special items</b>	<b>64,518</b>	<b>184,414</b>	<b>327,886</b>	<b>190,474</b>
<b>NET POSITION</b>				
Net position - beginning of year	915,446	731,032	1,426,379	967,388
Transfer of net assets	—	—	—	268,517
<b>Net position - end of year</b>	<b>\$ 979,964</b>	<b>\$ 915,446</b>	<b>\$ 1,754,265</b>	<b>\$ 1,426,379</b>

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**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**  
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	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 226,395	\$ 222,436
Clinical services and practice plan	377,123	324,525
Grants and contracts	82,642	116,258
Sales and services of educational departments	1,629	2,236
Payments to suppliers, vendors and contractors	(274,643)	(251,991)
Payments for utilities	(21,803)	(21,799)
Payments to employees	(523,106)	(546,504)
Payments for benefits	(114,243)	(126,203)
Payments for scholarships and fellowships	(39,623)	(41,518)
Loans issued to students	1,975	148
Auxiliary enterprises	11,422	15,196
Facilities and administrative cost recoveries	32,434	28,452
Intercollegiate athletics	65,199	80,220
Other receipts	13,293	22,632
<b>Net cash used by operating activities</b>	<b>(161,306)</b>	<b>(175,912)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	125,420	128,712
Gifts	23,778	37,532
Nonexchange grants and contracts	76,083	52,494
Contributions from related entities	41,408	46,866
Due from affiliates	(9,606)	(19,316)
Draw on line of credit	9,000	—
Other noncapital financing activities	1,385	2,860
<b>Net cash provided by noncapital financing activities</b>	<b>267,468</b>	<b>249,148</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations received	120	3,453
Capital gifts received	8,782	4,563
Purchases of capital assets	(47,075)	(25,703)
Proceeds from issuance of bonds and notes payables	72,110	50,070
Payment of issuance costs	2,329	1,166
Principal paid on bonds and notes payable	(49,443)	(20,164)
Interest paid on bonds and notes payable	(13,262)	(11,969)
Deposits with bond trustee and escrow agent	1,010	(1,280)
Other capital financing	(85)	81
<b>Net cash used by (provided by) capital and related financing activities</b>	<b>(25,514)</b>	<b>217</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	23,742	165,849
Purchase of investments	(35,816)	(157,211)

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	2021	2020
Interest on investments	2,908	2,670
<b>Net cash provided/(used) by investing activities</b>	<b>(9,166)</b>	<b>11,308</b>
Net increase/(decrease) in cash and cash equivalents	71,482	84,761
Cash and cash equivalents - beginning of year	191,156	106,395
<b>Cash and cash equivalents - end of year</b>	<b>\$ 262,638</b>	<b>\$ 191,156</b>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (202,150)	\$ (218,900)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	57,780	56,840
Loss on equipment disposals	(55)	205
Change in assets and liabilities:		
Loans, accounts and contributions receivable	(30,148)	16,561
Inventories	(833)	(1,513)
Other assets	(1,613)	(966)
Other long-term assets	199	201
Accounts payable and accrued liabilities	21,720	(13,284)
Advances	136	(5,466)
Deposits	81	(609)
Due from Affiliates	287	1,222
Unearned compensation and wages payable	(2,762)	(2,924)
Other long-term liabilities	4,999	15,530
Deferred outflows of resources	(4,598)	(6,509)
Deferred inflows of resources	(4,349)	(16,300)
<b>Net cash used by operating activities</b>	<b>\$ (161,306)</b>	<b>\$ (175,912)</b>
<b>NON-CASH TRANSACTIONS:</b>		
Capital lease additions	\$ —	\$ 2,618
Accrued liabilities for capital asset additions	\$ 3,486	\$ 1,600
Assets acquired through business combination	\$ —	\$ 132,413
Gifts of capital assets	\$ 409	\$ 1,075
Loss on disposal of assets	\$ (55)	\$ 205
Amortization of bond premium and discount	\$ (3,436)	\$ 774

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**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 ShelbyHurst 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.

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**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.

*UofL 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 consolidated financial statements of the University, along with the separate financial statements of the Association and the Research Foundation, can be found at the following:

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

**b. Cash and Cash Equivalents**

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

Restricted cash and cash equivalents include plant funds allocated for capital projects and debt service reserves.

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**c. Deposits With Bond Trustee and Escrow Agent**

Short-term deposits with bond trustee and escrow agents were \$0.8 million and \$6.3 million as of June 30, 2021 and June 30, 2020, respectively. These deposits are invested in money market funds and are related to lease arrangements. Long-term deposits with bond trustee and escrow agent were \$14.6 million and \$11.0 million as of June 30, 2021 and June 30, 2020, respectively. These deposits are invested in governmental securities and repurchase agreements and are 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 changes in unrealized gains (losses) on the carrying value of investments.

Investments held with the Foundation are invested under the policies and objectives established for the Foundation's general endowment pool as described in Note 21, Component Unit, subsection c, University of Louisville Foundation, Inc. and Affiliates.

**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, 2021 and 2020.

**g. Inventories**

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

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**h. Capital Assets**

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

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

The University does not capitalize interest cost of related borrowings as a component of construction in progress.

**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 \$17.3 million and \$13.7 million for the years ended June 30, 2021 and 2020, respectively. Deferred outflow of resources consist of the following: loss on bond refinancing, and amounts paid for other postemployment benefits. Deferred outflows of resources related to the loss on bond refinancing were \$3.4 million and \$4.3 million for the years ended June 30, 2021 and 2020 and will be amortized to interest expense using the effective interest method over the remaining life of the refinanced debt. Deferred outflows for other postemployment benefits of \$13.9 million and \$9.3 million for the years ended June 30, 2021 and 2020 represent amounts paid for employee healthcare after the actuarial measurement date but before the financial reporting date.

**j. Unearned Compensation Expenses**

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

**k. Advances**

Revenues of summer 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.

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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.

**i. Compensated Absences**

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

**m. Net Bond Premium**

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

**n. Deferred Inflows of Resources**

Deferred inflows of resources are an acquisition of net assets that are applicable to a future reporting period and decrease net position similar to liabilities. Deferred inflows of resources of \$61.5 million and \$65.8 million for the years ended June 30, 2021 and 2020, respectively, consist primarily of gain on bond refinancing of \$1.0 million, postemployment benefit experience and assumptions changes of \$25.2 million and \$28.0 million, respectively, and services concession arrangements as described below.

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, 2021, include \$35.2 million of deferred inflows of resources, \$14.0 million of long-term receivables, and \$14.4 million of net capital assets recorded. 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. 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 ongoing 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.



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**o. Net Position**

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, 2021 and 2020 (in thousands):

	2021	2020
Net investment in capital assets	\$ 800,980	\$ 825,433
Restricted - Nonexpendable		
Scholarships and fellowships	1,868	1,349
Restricted - Expendable		
Scholarships and fellowships	1,542	3,424
Research	14,304	17,981
Instruction	7,479	10,656
Public service	4,397	2,668
Academic support	180	598
Institutional support	10,003	11,136
Loans	2,908	2,937
Capital projects	10,847	13,930
Debt service	21,717	21,087
Unrestricted	103,739	4,247
<b>Total net position</b>	<b>\$ 979,964</b>	<b>\$ 915,446</b>

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

**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.

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**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**

There were no new pronouncements adopted by the University during the year ending June 30, 2021.

The University evaluated the financial statement impact of GASB Statement No. 84, Fiduciary Activities, for the years ending June 30, 2021 and 2020. This pronouncement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting. The Statement was not adopted by the University as the potential impact was deemed immaterial to the financial statements.

The following statements will be assessed for implementation in future reporting periods:

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 evaluated the impact of the guidance and deemed the fiduciary activities immaterial, therefore, implementation was not necessary.

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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 units if the government acquires a 100 percent equity interest, provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit. The University evaluated the impact of the guidance and deemed the impact immaterial, therefore, implementation was not necessary.

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 2020, 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 2022 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.

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**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, 2021 and 2020, are as follows (in thousands):

	2021	2020
Deposits	\$ 263,414	\$ 197,413
Investments	52,682	37,176
<b>Total</b>	<b>\$ 316,096</b>	<b>\$ 234,589</b>

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

	2021	2020
Cash and cash equivalents	\$ 206,674	\$ 142,291
Short-term investments	7,853	6,574
Deposit with bond trustee - current	776	6,257
Restricted cash and cash equivalents	55,964	48,865
Deposit with bond trustee - noncurrent	14,607	10,976
Investments held with University of Louisville Foundation, Inc.	3,410	5,460
Other long-term investments	26,812	14,166
<b>Total</b>	<b>\$ 316,096</b>	<b>\$ 234,589</b>

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**b. Custodial Credit Risk**

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. 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. Depository accounts held with the Commonwealth are pooled with other agencies of the Commonwealth and are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The University does not have a formal policy addressing custodial credit risk.

At June 30, 2021 and 2020, the University had deposits subject to custodial credit risk as follows (in thousands):

	2021			
	State Deposits	Overnight Investments	Total	
Collateralized with securities held by pledging financial institution	\$ —	\$ 45,445	\$	45,445
Collateralized with securities held by the Commonwealth in the Commonwealth's name	52,312	—		52,312
<b>Total</b>	<b>\$ 52,312</b>	<b>\$ 45,445</b>	<b>\$</b>	<b>97,757</b>

	2020			
	State Deposits	Overnight Investments	Total	
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
<b>Total</b>	<b>\$ 47,245</b>	<b>\$ 30,581</b>	<b>\$</b>	<b>77,826</b>

**c. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an 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.

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As of June 30, 2021 and 2020, the University had investments subject to interest rate risk as reflected in the following schedules (in thousands):

	2021			
	Total	Less than 1 year	1-5 years	6-10 years
US Treasury obligations	\$ —	\$ —	\$ —	\$ —
US Agency obligations	20,912	—	20,912	—
Other government obligations	11,982	6,839	5,143	—
Repurchase agreement	14,607	—	—	14,607
Certificates of deposit	1,015	1,015	—	—
<b>Total</b>	<b>\$ 48,516</b>	<b>\$ 7,854</b>	<b>\$ 26,055</b>	<b>\$ 14,607</b>

	2020			
	Total	Less than 1 year	1-5 years	6-10 years
US Treasury obligations	\$ 1,006	\$ 1,006	\$ —	\$ —
US Agency 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	—
<b>Total</b>	<b>\$ 30,760</b>	<b>\$ 6,574</b>	<b>\$ 13,210</b>	<b>\$ 10,976</b>

**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.

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As of June 30, 2021 and 2020, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

	2021		Total
	AAA	Not Rated	
Annuities	\$ 756	\$ —	\$ 756
Investment held with the University of Louisville Foundation, Inc.	—	3,410	3,410
<b>Total</b>	<b>\$ 756</b>	<b>\$ 3,410</b>	<b>\$ 4,166</b>

	2020		Total
	AAA	Not Rated	
Annuities	\$ 956	\$ —	\$ 956
Investment held with the University of Louisville Foundation, Inc.	—	5,460	5,460
<b>Total</b>	<b>\$ 956</b>	<b>\$ 5,460</b>	<b>\$ 6,416</b>

**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, 2021 and 2020, 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, 2021 and 2020, is as follows:

	2021	2020
Investment in partnerships	50 %	48 %
Marketable alternatives	15 %	19 %
Mutual funds	19 %	16 %
Fixed income	10 %	12 %
Preferred and common stock	6 %	5 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

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, 2021 and 2020.



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**3. Fair Value Measurements**

Fair value is based on an exit price, which 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. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value.

Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The University and the component units presented in the accompanying financial statements use the fair value hierarchy to value their financial instruments.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 - Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1.

The University classifies certificates of deposit securities and U.S. Treasury obligations in Level 1 of the fair value hierarchy because they are valued using prices quoted in active markets for those securities.

The component units classify mutual funds, domestic equity, and U.S. Treasury obligations as Level 1 investments.

Level 2 - Quoted prices in the markets that are not considered to be active, dealer quotations, or alternative pricing sources for similar assets and liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2.

The University classifies other governmental obligations, U.S. agency obligations, and derivative instruments as Level 2. The evaluated prices of these investments may be determined by factors which include but are not limited to, market quotations, yields, maturities, call features, ratings, and standard pricing models using current forward rate assumptions and/or volatility to predict cash flows.

The component units classify mortgage, asset backed and corporate bonds as Level 2 investments. The fair value of the funds held in trust by others is determined at the market value of the underlying debt and equity securities held in the beneficial trust. 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.

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Level 3 - Investments classified as Level 3 have significant unobservable inputs as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment.

The University and component units do not have any investments classified as Level 3.

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.

The table below presents the fair value measurements of assets and liabilities held by the University as of June 30, 2021 and 2020 (in thousands):

	2021				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
Investments					
US Agency obligations	\$ 20,912	\$ 20,912	\$ —	\$ —	\$ —
Other governmental obligations	11,982	—	11,982	—	—
Certificate of deposit	1,015	1,015	—	—	—
University of Louisville Foundation, Inc. investment fund	3,410	—	—	—	3,410
<b>Total investments measured at fair value</b>	<b>\$ 37,319</b>	<b>\$ 21,927</b>	<b>\$ 11,982</b>	<b>\$ —</b>	<b>\$ 3,410</b>

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	2020				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
<b>Investments</b>					
US Treasury obligations	\$ 1,006	\$ 1,006	\$ —	\$ —	\$ —
US 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
<b>Investment derivative instruments</b>					
Interest rate swap	(85)	—	(85)	—	—
<b>Total investments measured at fair value</b>	<b>\$ 25,159</b>	<b>\$ 18,122</b>	<b>\$ 1,577</b>	<b>\$ —</b>	<b>\$ 5,460</b>

Investments held by the University measured at NAV as of June 30, 2021 and 2020 (in thousands):

	2021		
	Fair Value	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	\$ 3,410	Various from any valuation day to quarterly	Various from 5 to 90 days

	2020		
	Fair Value	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

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The table below presents the fair value measurements of assets and liabilities held by the component units as of June 30, 2021 and 2020 (in thousands):

	2021				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
US Treasury obligations	\$ 42,408	\$ 42,408	\$ —	\$ —	\$ —
US Agency obligations	—	—	—	—	—
Mutual funds	142,283	142,283	—	—	—
Corporate bonds	14,788	—	14,788	—	—
Funds held in trust by others	74,711	—	74,711	—	—
Hedge funds	137,470	—	—	—	137,470
Investments in partnerships	451,571	—	—	—	451,571
<b>Total investments measured at fair value</b>	<b>\$ 863,231</b>	<b>\$ 184,691</b>	<b>\$ 89,499</b>	<b>\$ —</b>	<b>\$ 589,041</b>

	2020				
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
US Treasury obligations	\$ 25,508	\$ 25,508	\$ —	\$ —	\$ —
US Agency obligations	10,832	—	10,832	—	—
Mutual funds	151,575	151,575	—	—	—
Domestic marketable equity securities	37,561	37,561	—	—	—
Municipal bonds	537	—	537	—	—
Mortgage bonds	3,878	—	3,878	—	—
Asset backed bonds	4,929	—	4,929	—	—
Corporate bonds	26,570	—	26,570	—	—
Funds held in trust by others	58,516	—	58,516	—	—
Hedge funds	129,057	—	—	—	129,057
Investments in partnerships	328,695	—	—	—	328,695
<b>Total investments measured at fair value</b>	<b>\$ 777,658</b>	<b>\$ 214,644</b>	<b>\$ 105,262</b>	<b>\$ —</b>	<b>\$ 457,752</b>

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The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held by the component units at June 30, 2021 and 2020, are presented below (in thousands):

	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	\$ 137,470	\$ —	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	451,571	66,951	Various from monthly to illiquid	Various from 30 to 180

	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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

**4. Loans, Accounts, and Contributions Receivable, Net**

Loans, accounts, and contributions receivable, net as of June 30, 2021 and 2020, are presented below (in thousands):

	2021		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	\$ 53,902	\$ (23,345)	\$ 30,557
Patient care	46,777	(22,043)	24,734
Contributions receivable	34,982	(6,408)	28,574
Sponsored agreements	47,373	(3,671)	43,702
Trade receivables	9,396	—	9,396
Other	16,566	—	16,566
<b>Total</b>	<b>\$ 208,996</b>	<b>\$ (55,467)</b>	<b>\$ 153,529</b>
Less discount			(903)
Current portion			104,836
Noncurrent portion			\$ 47,790

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	2020		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	\$ 48,956	\$ (20,419)	\$ 28,537
Patient care	36,136	(20,326)	15,810
Contributions receivable	34,462	(5,896)	28,566
Sponsored agreements	26,622	(1,764)	24,858
Trade receivables	7,719	—	7,719
Other	18,387	—	18,387
<b>Total</b>	<b>\$ 172,282</b>	<b>\$ (48,405)</b>	<b>\$ 123,877</b>
Less discount			(1,399)
Current portion			72,138
Noncurrent portion			\$ 50,340

Contributions receivable consist primarily of charitable gifts totaling \$35.0 million pledged from individual and corporate donors that are associated with the construction projects and general fundraising 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 2.25% as of June 30, 2021.

Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2021 and June 30, 2020.

Contributions receivable as of June 30, 2021 and 2020, are due to be received as follows (in thousands):

	2021	2020
Less than one year	\$ 10,893	\$ 10,731
One to three years	10,009	9,070
Greater than three years	14,080	14,661
<b>Total gross contributions receivable</b>	<b>34,982</b>	<b>34,462</b>
Less discount	(903)	(1,399)
Less allowance	(6,408)	(5,896)
<b>Net contributions receivable</b>	<b>\$ 27,671</b>	<b>\$ 27,167</b>

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.

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**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 \$5.2 million and \$4.2 million to the University as of June 30, 2021 and 2020, 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 three 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 \$1.1 million and \$1.6 million of the loan during the years ended June 30, 2021 and 2020, respectively. The note balance was repaid as of June 30, 2021.

The University manages ULREF owned dorms, including collection of rents, payment of related expenses, and managing the properties. No balances for rents collected were due or reimbursement of expenses owed as of June 30, 2021 and 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, 2021, there were no rents earned. For the year ending June 30, 2020, the annual rents were \$0.3 million and included as a current due from affiliate.

**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 of the outstanding balance during the years ended June 30, 2021 and 2020, respectively. The outstanding note balance is \$3.2 million as of June 30, 2021, with \$0.8 million in current due from affiliate and the remaining \$2.4 million in noncurrent due from affiliate.

The University has receivables from ULP due through the normal course of business and reflected in loans, accounts, and contributions receivable, net in the Statements of Net Position. As of June 30, 2021, receivables of \$0.1 million were due. There was no receivable balance as of June 30, 2020.

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**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 \$4.2 million and \$4.9 million of the outstanding balance during the years ended June 30, 2021 and 2020, respectively.

The University has receivables from UMC due through the normal course of business and reflected in loans, accounts, and contributions receivable, net in the Statements of Net Position. As of June 30, 2021 and 2020, receivables of \$5.2 million and \$2.9 million were due, respectively.

**e. UL Health, Inc. (UL Health)**

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 \$33.2 million and \$37.0 million for the years ended June 30, 2021 and 2020. During fiscal year 2021, the Research Foundation received payments of \$27.0 million related to the agreement with UL Health. As of June 30, 2021, the remaining balance due to the Research Foundation is \$53.2 million and is reported in current and noncurrent due from affiliates based on when receipt of payment is expected.

The University has receivables from UL Health due through the normal course of business and reflected in loans, accounts and contributions receivable, net in the Statements of Net Position. As of June 30, 2021 and 2020, receivables of \$3.6 million and \$1.3 million were due, respectively.



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**6. Capital Assets, Net**

Capital assets as of June 30, 2021 and 2020, are as follows (in thousands):

	Beginning Balance	2021			Ending Balance
		Additions	Retirements	Transfers	
<b>Cost - Nondepreciable</b>					
Land	\$ 58,425	\$ —	\$ —	\$ —	\$ 58,425
Rare books	48,382	86	—	—	48,468
Construction in progress	5,233	34,993	—	(2,474)	37,752
<b>Subtotal</b>	<b>112,040</b>	<b>35,079</b>	<b>—</b>	<b>(2,474)</b>	<b>144,645</b>
<b>Cost - Depreciable</b>					
Buildings	1,498,062	1,070	—	2,474	1,501,606
Infrastructure	53,907	—	—	—	53,907
Land improvements	21,471	—	—	—	21,471
Equipment	226,500	12,037	(3,016)	—	235,521
Leasehold improvements	2,117	—	—	—	2,117
Library materials	176,111	1,264	—	—	177,375
<b>Subtotal</b>	<b>1,978,168</b>	<b>14,371</b>	<b>(3,016)</b>	<b>2,474</b>	<b>1,991,997</b>
<b>Total capital assets-cost</b>	<b>2,090,208</b>	<b>49,450</b>	<b>(3,016)</b>	<b>—</b>	<b>2,136,642</b>
<b>Accumulated depreciation</b>					
Buildings	636,269	42,285	—	—	678,554
Infrastructure	6,591	898	—	—	7,489
Land improvements	5,873	573	—	—	6,446
Equipment	197,026	11,122	(2,990)	—	205,158
Leasehold improvements	1,755	61	—	—	1,816
Library materials	164,519	2,841	—	—	167,360
<b>Total accumulated depreciation</b>	<b>1,012,033</b>	<b>57,780</b>	<b>(2,990)</b>	<b>—</b>	<b>1,066,823</b>
<b>Capital assets, net</b>	<b>\$ 1,078,175</b>	<b>\$ (8,330)</b>	<b>\$ (26)</b>	<b>\$ —</b>	<b>\$ 1,069,819</b>

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	2020				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<b>Cost - Nondepreciable</b>					
Land	\$ 44,677	\$ 13,748	\$ —	\$ —	\$ 58,425
Rare books	47,958	424	—	—	48,382
Construction in progress	211	8,658	—	(3,636)	5,233
<b>Subtotal</b>	<b>92,846</b>	<b>22,830</b>	<b>—</b>	<b>(3,636)</b>	<b>112,040</b>
<b>Cost - Depreciable</b>					
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
<b>Subtotal</b>	<b>1,842,365</b>	<b>136,035</b>	<b>(3,868)</b>	<b>3,636</b>	<b>1,978,168</b>
<b>Total capital assets-cost</b>	<b>1,935,211</b>	<b>158,865</b>	<b>(3,868)</b>	<b>—</b>	<b>2,090,208</b>
<b>Accumulated depreciation</b>					
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
<b>Total accumulated depreciation</b>	<b>958,856</b>	<b>56,840</b>	<b>(3,663)</b>	<b>—</b>	<b>1,012,033</b>
<b>Capital assets, net</b>	<b>\$ 976,355</b>	<b>\$ 102,025</b>	<b>\$ (205)</b>	<b>\$ —</b>	<b>\$ 1,078,175</b>

**7. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following at June 30, 2021 and 2020 (in thousands):

	2021	2020
Salaries and benefits	\$ 37,319	\$ 39,830
Payroll taxes	36,265	21,757
Construction	3,486	1,600
Accrued interest	3,732	3,206
Other	31,717	22,158
<b>Total</b>	<b>\$ 112,519</b>	<b>\$ 88,551</b>

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**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, 2021 and 2020. The outstanding balance was approximately \$1.0 million for each of the years ended June 30, 2021 and 2020.

**9. Line of Credit**

The University received a line of credit with a financial institution in the form of a revenue anticipation note on July 1, 2020 in the amount of \$50 million with a maturity date of June 30, 2021. 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, 2021 with a maturity date of June 30, 2022 with substantially the same terms as the original line of credit.

In April 2021, the Association entered into a \$20.0 million line of credit with a financial institution to fund the Association's working capital expenses. The line of credit is secured by collateral, including funding and revenues of the Association and third-party pledges to the Association. The line of credit converts to a 20-year note May 31, 2023 with principal and interest payments through April 30, 2043. The interest rate on the new loan at conversion is fixed at 2.93%. During the year ended June 30, 2021, the Association drew down \$9.0 million and repaid \$0. The balance of the line of credit is \$9.0 million as of June 30, 2021.

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

Long-term debt, net of discount, of the University consisted of the following at June 30, 2021 and 2020 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2021	2020
General Receipts Bonds:				
Series B of 2010	5.5%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	1,565	23,845
Series A of 2012	5.0%	2023	3,190	4,675
Series A of 2016	2.0% to 5.0%	2036	10,275	11,080
Series B of 2016	3.0% to 5.0%	2028	17,270	19,450
Series C of 2016	2.0% to 4.0%	2029	43,050	47,590
Series D of 2016	3.0% to 5.0%	2036	45,295	45,295
Series E of 2016	2.2% to 3.0%	2023	2,185	3,290
Series F of 2016	5.0%	2028	17,715	19,790
Series A of 2020	2.0% to 5.0%	2051	45,320	45,320
Series A of 2021	1.5%	2032	21,400	—
Series B of 2021	2.0% to 5.0%	2051	39,450	—
Notes from direct placement	2.9%	2043	11,000	5,156
Master lease obligations	1.8% to 4.1%	2021 to 2030	8,131	15,901
Energy leases	2.6% to 4.8%	2033	9,480	11,275
Capital lease obligations	2.0% to 10.7%	2021	375	367
<b>Total long-term debt</b>			<b>296,643</b>	<b>273,976</b>
Net unamortized premium			13,347	14,329
<b>Long-term debt, net</b>			<b>\$ 309,990</b>	<b>\$ 288,305</b>

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

	2021					
	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	\$ 241,277	\$ 60,850	\$ (34,470)	\$ 267,657	\$ 15,390	\$ 252,267
Notes from direct placement	5,156	11,000	(5,156)	11,000	—	11,000
Draws on master lease	15,901	—	(7,770)	8,131	1,939	6,192
Energy leases	11,275	—	(1,795)	9,480	2,183	7,297
Capital leases	367	260	(252)	375	160	215
<b>Total</b>	<b>273,976</b>	<b>72,110</b>	<b>(49,443)</b>	<b>296,643</b>	<b>19,672</b>	<b>276,971</b>
Less amortized net (discount)/premium	14,329	2,454	(3,436)	13,347	1,771	11,576
<b>Net long-term debt</b>	<b>\$ 288,305</b>	<b>\$ 74,564</b>	<b>\$ (52,879)</b>	<b>\$ 309,990</b>	<b>\$ 21,443</b>	<b>\$ 288,547</b>

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	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 from direct placement	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
<b>Total</b>	<b>244,067</b>	<b>50,070</b>	<b>(20,161)</b>	<b>273,976</b>	<b>22,040</b>	<b>251,936</b>
Less amortized net (discount)/premium	15,197	1,435	(2,303)	14,329	2,176	12,153
<b>Net long-term debt</b>	<b>\$ 259,264</b>	<b>\$ 51,505</b>	<b>\$ (22,464)</b>	<b>\$ 288,305</b>	<b>\$ 24,216</b>	<b>\$ 264,089</b>

Principal maturities and interest on bonds, notes from direct placement, and capital leases for the fiscal years ending June 30, are as follows (in thousands):

	Bonds Payable		Notes from Direct Placement		Leases Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 15,390	\$ 9,457	\$ —	\$ 322	\$ 4,282	740
2023	17,595	9,290	67	55	5,601	476
2024	16,460	8,664	410	320	2,385	227
2025	16,060	8,057	423	307	996	160
2026	16,410	7,423	436	294	989	129
2027-2031	87,127	23,652	9,663	1,230	2,922	332
2032-2036	45,695	11,680	—	—	810	32
2037-2041	15,445	5,870	—	—	—	—
2042-2046	17,505	3,807	—	—	—	—
2047-2051	19,970	1,355	—	—	—	—
<b>Total</b>	<b>\$ 267,657</b>	<b>\$ 89,255</b>	<b>\$ 11,000</b>	<b>\$ 2,528</b>	<b>\$ 17,986</b>	<b>\$ 2,095</b>

The University has capitalized leased equipment with a net book value of \$0.9 million as of June 30, 2021 and 2020.

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 \$356.9 million, with annual requirements ranging from \$4.3 million in 2037 to \$40.8 million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were \$32.6 million and \$501.2 million, respectively.

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As of June 30, 2021 and 2020, investments at fair value totaling approximately \$15.4 million and \$17.2 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 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. These bonds were partially refunded by the issuance of General Receipts Bonds 2021 Series A. The final maturity due to the refunding is September 1, 2021. The balance remaining of the General Receipts Bonds 2011 Series A is \$1.6 million as of June 30, 2021.

**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.

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**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.

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**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.

**University of Louisville General Receipts Bonds, 2021 Series A**

In June 2021, the University issued \$21.4 million of University of Louisville, General Receipts Bonds, 2021 Series A at a total interest cost of 1.55%. These bonds were a private placement with a financial institution. The proceeds were used to advance refund \$20.8 million of the General Receipt Bonds, 2010 Series A with a total interest cost of 3.6%. The bond proceeds have been deposited in escrow and will be used to redeem and retire the General Receipt Bonds, 2011 Series A on September 1, 2021. Final maturity on the General Receipt Bonds, 2021 Series A is September 1, 2031. The University will reduce its total debt service payments over the next ten years by \$4.2 million and realize net present value savings of approximately \$3.8 million as a result of the refinancing.

**University of Louisville General Receipts Bonds, 2021 Series B**

In May 2021, the University issued \$39.5 million of University of Louisville, General Receipts Bonds, 2021 Series B 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, and equipping of the dormitory. Final maturity of the bonds is September 1, 2051.

**Notes from Direct Placement**

In June 2014, the Association entered into a \$15.0 million Term Loan with a national banking association. The proceeds were used to partially finance renovation of the baseball and softball stadiums and construction of a soccer stadium (the Project). The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the term loan is the daily one-month LIBOR rate plus 1.14%, reset on the last day of each month. This term loan was refinanced in June 2018 and replaced with a \$9.6 million term loan with substantially the same terms. The interest rate on the new note is the daily one-month LIBOR rate plus 100 basis points. The balance of the term loan was \$3.7 million as of June 30, 2020.

In July 2019, the Association entered into a \$1.75 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 thousand commencing on June 30, 2020. The fixed interest rate on the term note is 3.6%. The balance of the term loan was \$1.75 million as of June 30, 2020.



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In April 2021, the Association refinanced the aforementioned term loans and the intercompany lease payable (see footnote 4 for additional discussion) for an \$11.0 million term loan with a financial institution. The loan is secured by collateral, including funds and revenues of the Association and third-party pledges to the Association. Principal repayments will begin May 31, 2023 as the note carries an interest only period ending on April 30, 2023. The interest rate on the new loan is fixed at 2.93% . The balance of the term loan is \$11.0 million as of June 30, 2021.

### **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 \$4.9 million and \$6.7 million as of June 30, 2021 and 2020, 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 \$4.6 million as of June 30, 2021 and 2020, 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 \$8.1 million and \$15.9 million as of June 30, 2021 and 2020, respectively.

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**11. Other Liabilities**

Other liabilities of the University are summarized at June 30, 2021 and 2020 (in thousands):

	2021					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Unearned compensation and wages payable	5,248	2,203	(4,965)	2,486	1,537	949
Deposits	1,061	520	(439)	1,142	—	1,142
Advances	54,844	391,875	(384,233)	57,436	50,894	6,542
Amounts due federal government for student loan program	17,145	291	(125)	17,311	—	17,311
Other long-term liabilities	6,130	—	(1,085)	5,045	—	5,045
<b>Total</b>	<b>\$ 84,428</b>	<b>\$ 394,889</b>	<b>\$ (390,847)</b>	<b>\$ 83,420</b>	<b>\$ 52,431</b>	<b>\$ 30,989</b>

	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 long-term liabilities	28	8,207	(2,105)	6,130	—	6,130
<b>Total</b>	<b>\$ 84,251</b>	<b>\$ 460,209</b>	<b>\$ (460,032)</b>	<b>\$ 84,428</b>	<b>\$ 50,552</b>	<b>\$ 33,876</b>

**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 2020 to 2021. Settlements have not exceeded insurance coverage during the past three years.

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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, 2021 and 2020, respectively, was approximately \$68.2 million and \$61.5 million, including \$5.4 million and \$5.3 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

The following table reconciles the claims liability for the fiscal years ended June 30, 2021, June 30, 2020, and June 30, 2019 (in thousands):

Fiscal year ended June 30,	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2021	\$ 5,287	\$ 68,376	\$ (68,214)	\$ 5,449
2020	\$ 5,189	\$ 61,615	\$ (61,517)	\$ 5,287
2019	\$ 4,699	\$ 58,062	\$ (57,572)	\$ 5,189

### 13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2021 and 2020 (in thousands):

	2021					
	Salary and Wages	Employee Benefits	Utilities	Scholarships and Fellowships	Supplies and Other	Total
Instruction	\$ 183,884	\$ 43,599	\$ 7	\$ 1,190	\$ 12,742	\$ 241,422
Research	87,355	19,611	43	1,040	43,184	151,233
Public service	52,491	11,602	40	254	83,186	147,573
Academic support	83,998	18,026	75	1,070	62,305	165,474
Student services	16,764	5,511	125	108	7,679	30,187
Institutional support	46,184	7,257	—	178	25,440	79,059
Operation and maintenance of plant	13,410	5,083	20,098	229	13,327	52,147
Scholarships and fellowships	4,346	782	—	30,219	573	35,920
Auxiliary enterprises	1,392	467	704	(248)	4,951	7,266
Intercollegiate athletics	35,789	7,458	895	5,583	34,547	84,272
Depreciation and amortization	—	—	—	—	—	57,780
<b>Total</b>	<b>\$ 525,613</b>	<b>\$ 119,396</b>	<b>\$ 21,987</b>	<b>\$ 39,623</b>	<b>\$ 287,934</b>	<b>\$ 1,052,333</b>

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	2020					
	Salary and Wages	Employee Benefits	Utilities	Scholarships and Fellowships	Supplies and Other	Total
Instruction	\$ 205,219	\$ 47,907	\$ 59	\$ 1,410	\$ 18,913	273,508
Research	75,224	18,843	33	1,258	42,964	138,322
Public service	70,882	16,090	48	405	28,722	116,147
Academic support	70,365	15,967	23	612	63,031	149,998
Student services	16,278	5,319	128	91	8,082	29,898
Institutional support	45,755	10,790	5	97	16,518	73,165
Operation and maintenance of plant	14,223	5,438	19,422	237	11,924	51,244
Scholarships and fellowships	4,507	349	—	29,871	2,532	37,259
Auxiliary enterprises	1,489	199	786	(232)	4,727	6,969
Intercollegiate athletics	40,004	8,279	870	5,525	47,725	102,403
Depreciation and amortization	—	—	—	—	—	56,840
<b>Total</b>	<b>\$ 543,946</b>	<b>\$ 129,181</b>	<b>\$ 21,374</b>	<b>\$ 39,274</b>	<b>\$ 245,138</b>	<b>\$ 1,035,753</b>

**14. Funding from Higher Education Relief Funds**

The Federal Government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 on December 27, 2020, and the American Rescue Plan Act of 2021 on March 11, 2021, all of which included funding for the Higher Education Emergency Relief Fund (HEERF). These funds were awarded to institutions of higher education in multiple allotments. The University received funding in two 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 allocations totaling \$31.3 million for financial aid grants and \$39.2 million for institutional aid. As of June 30, 2021, \$12.9 million of the student financial aid and \$20.8 million of institutional aid had been utilized. These revenues are included in nonexchange grants and contracts in Nonoperating revenue (expenses) while expenses are reported in institutional and scholarship in the 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.

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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% match of base salary and an additional contribution of 2.5%. Beginning February 1, 2021, the additional contribution was increased to 6.0%.

Other information relating to this plan for the years ended June 30, 2021 and 2020, is presented as follows (in thousands):

	2021	2020
Total University payroll	\$ 530,287	\$ 552,110
Total payroll covered by the plan	\$ 514,324	\$ 531,340
Employee contributions	\$ 31,877	\$ 30,966
University contributions	\$ 22,134	\$ 33,031

As of June 30, 2021 and 2020, the University had no outstanding liability related to the Retirement Plan and \$42 thousand and \$50 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, 2021 and June 30, 2020. 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, 2021 and 2020, are as follows (in thousands):

	2021	2020
Actuarial present value of nonvested accumulated plan benefits	\$ 558	\$ 625
Net assets available for benefits	\$ 1,026	\$ 1,104
Net pension surplus	\$ (468)	\$ (479)
Funded ratio	184 %	177 %

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, 2021 and 2020, for preretirement and postretirement periods.

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**16. Postemployment Healthcare Benefits**

**a. Plan Description**

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

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

At July 1, 2021, the following employees were covered by the benefit terms.

Inactive plan members	1,586
Active plan members	5,354
<b>Total</b>	<b>6,940</b>

**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, 2021 and 2020, the University contributed approximately \$2.1 million and \$1.9 million to the Plan, approximately 59% and 67% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$956 thousand and \$914 thousand, approximately 27% and 33% of total premiums for the years ended June 30, 2021 and 2020, respectively. Health plan rates remained unchanged for the year ended June 30, 2021. Retired Plan members made monthly contributions according to the rate schedule below.

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

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the years ended June 30, 2021 and 2020, the University contributed \$1.9 million and \$2.0 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, 2020. The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

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Inflation	2.25%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	6.4% for 2020, decreasing 0.10%-0.25% per year to an ultimate rate of 4.15% 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
<b>Balances at 6/30/2020</b>	<b>\$ 74,239</b>
Changes for the year:	
Service cost	2,538
Interest	2,318
Differences between expected and actual experience	(1,687)
Changes of assumptions	5,757
Benefit payments	(2,927)
<b>Net Changes</b>	<b>5,999</b>
<b>Balances at 6/30/2021</b>	<b>\$ 80,238</b>

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate (in thousands):

	1% Decrease (1.45)%	Discount Rate (2.45)%	1% Increase (3.45)%
Sensitivity of OPEB Liability to Changes in Discount Rate	\$ 90,227	\$ 80,238	\$ 71,885

	1% Decrease (5.4)%	Healthcare Cost Trend Rates (6.4)%	1% Increase (7.4)%
Sensitivity of OPEB Liability to Changes in Medical Trend Rate	\$ 77,001	\$ 80,238	\$ 84,031

For the year ended June 30, 2021 the University recognized OPEB expense of \$2.2 million. At June 30, 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,408	\$ 3,986
Changes of assumptions	8,977	21,233
Contributions made in fiscal year ending 6/30/2021 after the measurement date of 6/30/2020	3,558	—
<b>Total</b>	<b>\$ 13,943</b>	<b>\$ 25,219</b>

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:	
2022	\$ (2,648)
2023	(2,648)
2024	(2,648)
2025	(2,648)
2026	(2,231)
Thereafter	(2,013)
<b>Total</b>	<b>\$ (14,836)</b>

**d. Funded Status and Funding Progress**

As of June 30, 2020, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was \$80.2 million and \$74.2 million and there were no assets, resulting in an unfunded net OPEB liability of \$80.2 million and \$74.2 million as of June 30, 2021 and 2020, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$490.2 million and \$493.9 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 16% and 15%, for the years ended June 30, 2021 and 2020, respectively.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.



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**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, 2020, 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 June 30, 2020, 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**

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 was \$33.2 million and \$37.0 million for the years ended June 30, 2021 and 2020, respectively.

The University has an academic affiliation agreement with UL Health 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 UL Health run facilities, in return, UL Health receives revenues for the services provided. UL Health 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, 2021 and 2020, support totaling approximately \$113.7 million and \$53.3 million, respectively, was received under these agreements.

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As of July 1, 2017, an 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, 2021 and 2020, rent revenue was \$7.5 million. 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 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 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. The Research Foundation received total support of \$74.7 million and \$22.8 million related academic, departmental and research support for June 30, 2021 and 2020, respectively. Norton made additional payments to the Research Foundation for professional services provided by clinical providers of \$3.4 million and \$3.3 million for the years ending June 30, 2021 and 2020, respectively.

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 year ended June 30, 2020 was \$26.9 million. All prior agreements were superseded by the agreements with NCMG.

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**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 \$7.9 million and \$9.4 million as of June 30, 2021 and 2020, 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
2022	\$ 14,541
2023	12,770
2024	3,041
2025	2,874
2026	2,602
2027-2031	12,653
2032-2036	12,178
2037-2041	12,175
2042-2046	12,175
2047-2051	75
2052-2056	75
2057-2061	75
2062-2066	75
2067-2071	45
<b>Future minimum lease payments</b>	<b>\$ 85,354</b>

**19. Commitments and Contingencies**

**a. Commitments**

At June 30, 2021, the University had approximately \$28.2 million in encumbrances outstanding for future expenditures.

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**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.

**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.

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**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, 2021 and 2020, are on the following pages (in thousands):

	2021			
	University	Research Foundation	Athletic Association	Total
Current assets	\$ 188,686	\$ 159,140	\$ 44,683	\$ 392,509
Capital assets	803,950	54,193	211,676	1,069,819
Other noncurrent assets	115,426	13,203	29,349	157,978
<b>Total assets</b>	<b>1,108,062</b>	<b>226,536</b>	<b>285,708</b>	<b>1,620,306</b>
Deferred outflows of resources	10,282	5,438	1,585	17,305
<b>Total assets and deferred outflows of resources</b>	<b>1,118,344</b>	<b>231,974</b>	<b>287,293</b>	<b>1,637,611</b>
Current liabilities	108,924	33,200	53,269	195,393
Other noncurrent liabilities	259,945	31,315	109,514	400,774
<b>Total liabilities</b>	<b>288,182</b>	<b>64,515</b>	<b>162,783</b>	<b>596,167</b>
Deferred inflows of resources	49,846	9,835	1,799	61,480
Net investment in capital assets	610,140	54,185	136,655	800,980
Restricted-nonexpendable	–	–	1,868	1,868
Restricted-expendable	37,808	17,536	18,033	73,377
Unrestricted	51,681	85,903	(33,845)	103,739
<b>Total net position</b>	<b>699,629</b>	<b>157,624</b>	<b>122,711</b>	<b>979,964</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 1,037,657</b>	<b>\$ 231,974</b>	<b>\$ 287,293</b>	<b>\$ 1,637,611</b>

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	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
<b>Total assets</b>	<b>1,056,109</b>	<b>160,209</b>	<b>287,793</b>	<b>1,504,111</b>
<b>Deferred outflows of resources</b>	<b>8,824</b>	<b>3,364</b>	<b>1,499</b>	<b>13,687</b>
<b>Total assets and deferred outflows of resources</b>	<b>1,064,933</b>	<b>163,573</b>	<b>289,292</b>	<b>1,517,798</b>
Current liabilities	94,406	26,520	42,393	163,319
<b>Total liabilities</b>	<b>225,916</b>	<b>53,270</b>	<b>161,132</b>	<b>536,523</b>
<b>Deferred inflows of resources</b>	<b>53,933</b>	<b>10,069</b>	<b>1,827</b>	<b>65,829</b>
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
<b>Total net position</b>	<b>688,879</b>	<b>100,234</b>	<b>126,333</b>	<b>915,446</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 968,728</b>	<b>\$ 163,573</b>	<b>\$ 289,292</b>	<b>\$ 1,517,798</b>

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	2021			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 231,505	\$ —	\$ —	\$ 231,505
Clinical services and practice plan	15,448	372,621	—	388,069
Grants and contracts	—	107,418	—	107,418
Facilities and administrative cost recoveries	6	32,428	—	32,434
Other operating revenue	21,412	6,961	62,384	90,757
<b>Total operating revenues</b>	<b>268,371</b>	<b>519,428</b>	<b>62,384</b>	<b>850,183</b>
Depreciation	42,717	6,863	8,200	57,780
Other operating expenses	396,569	503,646	94,338	994,553
<b>Total operating expenses</b>	<b>439,286</b>	<b>510,509</b>	<b>102,538</b>	<b>1,052,333</b>
<b>Operating gain (loss)</b>	<b>(170,915)</b>	<b>8,919</b>	<b>(40,154)</b>	<b>(202,150)</b>
State appropriations	125,420	—	—	125,420
Gifts	75	2,905	18,342	21,322
Interest on capital asset-related debt	(11,033)	—	(298)	(11,331)
Other nonoperating revenues	3,250	76,163	530	79,943
Capital appropriations	120	—	—	120
Capital gifts	—	—	8,782	8,782
Contributions from affiliates, net	42,412	—	—	42,412
Transfers	21,421	(30,597)	9,176	—
<b>Total nonoperating revenues</b>	<b>181,665</b>	<b>48,471</b>	<b>36,532</b>	<b>266,668</b>
<b>Change in net position</b>	<b>10,750</b>	<b>57,390</b>	<b>(3,622)</b>	<b>64,518</b>
Net position - beginning of year	688,879	100,234	126,333	915,446
<b>Net position - end of year</b>	<b>\$ 699,629</b>	<b>\$ 157,624</b>	<b>\$ 122,711</b>	<b>\$ 979,964</b>

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	2020			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 227,233	\$ —	\$ —	\$ 227,233
Clinical services and practice plan	16,410	312,982	—	329,392
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
<b>Total operating revenues</b>	<b>267,955</b>	<b>462,339</b>	<b>86,559</b>	<b>816,853</b>
Depreciation	42,274	6,362	8,204	56,840
Other operating expenses	427,663	439,511	111,739	978,913
<b>Total operating expenses</b>	<b>469,937</b>	<b>445,873</b>	<b>119,943</b>	<b>1,035,753</b>
<b>Operating loss</b>	<b>(201,982)</b>	<b>16,466</b>	<b>(33,384)</b>	<b>(218,900)</b>
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)	—
<b>Total nonoperating revenues</b>	<b>179,238</b>	<b>53,949</b>	<b>37,714</b>	<b>270,901</b>
Special item	132,413	—	—	132,413
<b>Change in net position</b>	<b>109,669</b>	<b>70,415</b>	<b>4,330</b>	<b>184,414</b>
Net position - beginning of year	579,210	29,819	122,003	731,032
<b>Net position - end of year</b>	<b>\$ 688,879</b>	<b>\$ 100,234</b>	<b>\$ 126,333</b>	<b>\$ 915,446</b>



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	2021			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	\$ (124,027)	\$ (3,476)	\$ (33,803)	\$ (161,306)
Noncapital financing activities	211,928	33,572	21,968	267,468
Capital and related financing activities	(30,506)	(7,525)	12,517	(25,514)
Investing activities	(12,247)	—	3,081	(9,166)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>45,148</b>	<b>22,571</b>	<b>3,763</b>	<b>71,482</b>
Cash and cash equivalents, beginning of year	148,924	19,971	22,261	191,156
<b>Cash and cash equivalents, end of year</b>	<b>\$ 194,072</b>	<b>\$ 42,542</b>	<b>\$ 26,024</b>	<b>\$ 262,638</b>

	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
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>75,650</b>	<b>19,971</b>	<b>(10,860)</b>	<b>84,761</b>
Cash and cash equivalents, beginning of year	73,274	—	33,121	106,395
<b>Cash and cash equivalents, end of year</b>	<b>\$ 148,924</b>	<b>\$ 19,971</b>	<b>\$ 22,261</b>	<b>\$ 191,156</b>

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**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, 2021 and 2020, are as follows (in thousands):

	2021			
	UL Foundation	UL RE Foundation	UL Health	Total
Current assets	\$ 33,359	\$ 12,188	\$ 813,947	\$ 859,494
Capital assets	50,467	140,609	272,655	463,731
Other noncurrent assets	991,841	97,777	56,266	1,145,884
<b>Total assets</b>	<b>1,075,667</b>	<b>250,574</b>	<b>1,142,868</b>	<b>2,469,109</b>
Current liabilities	17,769	2,667	461,886	482,322
Other noncurrent liabilities	47,219	72,034	113,269	232,522
<b>Total liabilities</b>	<b>64,988</b>	<b>74,701</b>	<b>575,155</b>	<b>714,844</b>
Net investment in capital assets	—	—	—	—
Restricted nonexpendable	650,132	—	—	650,132
Restricted expendable	300,231	—	24,658	324,889
Unrestricted	60,316	175,873	543,055	779,244
<b>Total net position</b>	<b>1,010,679</b>	<b>175,873</b>	<b>\$ 567,713</b>	<b>1,754,265</b>
<b>Total liabilities and net position</b>	<b>\$ 1,075,667</b>	<b>\$ 250,574</b>	<b>\$ 1,142,868</b>	<b>\$ 2,469,109</b>

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	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
<b>Total assets</b>	<b>857,024</b>	<b>256,019</b>	<b>1,077,054</b>	<b>2,190,097</b>
Current liabilities	17,866	3,991	416,433	438,290
Other noncurrent liabilities	67,026	78,454	179,948	325,428
<b>Total liabilities</b>	<b>84,892</b>	<b>82,445</b>	<b>596,381</b>	<b>763,718</b>
Net investment in capital assets	—	—	8,656	8,656
Restricted nonexpendable	484,984	—	—	484,984
Restricted expendable	246,212	—	34,193	280,405
Unrestricted	40,936	173,574	437,824	652,334
<b>Total net position</b>	<b>772,132</b>	<b>173,574</b>	<b>\$ 480,673</b>	<b>1,426,379</b>
<b>Total liabilities and net position</b>	<b>\$ 857,024</b>	<b>\$ 256,019</b>	<b>\$ 1,077,054</b>	<b>\$ 2,190,097</b>

	2021			
	UL Foundation	UL RE Foundation	UofL Health	Total
Patient revenue, net	\$ —	\$ —	\$ 1,719,742	\$ 1,719,742
Other operating revenue	8,338	21,357	215,765	245,460
<b>Total operating revenue</b>	<b>8,338</b>	<b>21,357</b>	<b>1,935,507</b>	<b>1,965,202</b>
Depreciation	2,931	9,027	35,765	47,723
Other operating expense	59,716	10,031	1,785,623	1,855,370
<b>Total operating expense</b>	<b>62,647</b>	<b>19,058</b>	<b>1,821,388</b>	<b>1,903,093</b>
<b>Operating income (loss)</b>	<b>(54,309)</b>	<b>2,299</b>	<b>114,119</b>	<b>62,109</b>
Gifts and donations	38,636	—	—	38,636
Investment income	254,220	—	1,748	255,968
Other nonoperating revenue (expense)	—	—	(28,827)	(28,827)
<b>Total nonoperating revenue (expense)</b>	<b>292,856</b>	<b>—</b>	<b>(27,079)</b>	<b>265,777</b>
<b>Change in net position</b>	<b>238,547</b>	<b>2,299</b>	<b>87,040</b>	<b>327,886</b>
Net position-beginning of year	772,132	173,574	480,673	1,426,379
<b>Net position-end of year</b>	<b>\$ 1,010,679</b>	<b>\$ 175,873</b>	<b>\$ 567,713</b>	<b>\$ 1,754,265</b>

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

**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.

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**1. ULF - Description of Organization and Summary of Significant Accounting Policies**

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 Foundation adopted this standard in July 2021, with no material impact to the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets*. This ASU intends to improve the transparency of disclosures in the notes to financial statements by requiring distinct presentation of contributed non-financial assets within the statement of activities and clarification of the contributed non-financial assets by category within the notes. The ASU is effective for annual reporting periods ending after June 15, 2022, with early adoption permitted. The Foundation is currently evaluating the effect this new standard will have on its financial statements.

**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 U.S. 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, 2021 and 2020, was as follows (in thousands):

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	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 650,132	\$ 650,132
Board-designated endowment funds	36,987	176,329	213,316
	<b>\$ 36,987</b>	<b>\$ 826,461</b>	<b>\$ 863,448</b>

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 484,984	\$ 484,984
Board-designated endowment funds	31,380	133,137	164,517
	<b>\$ 31,380</b>	<b>\$ 618,121</b>	<b>\$ 649,501</b>

Changes in endowment net assets for the years ended June 30, 2021 and 2020, were as follows (in thousands):

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 31,380	\$ 618,121	\$ 649,501
Investment return:			
Investment and endowment income	221	4,713	4,934
Net appreciation	10,160	210,686	220,846
<b>Total investment return</b>	<b>10,381</b>	<b>215,399</b>	<b>225,780</b>
Contributions	—	6,571	6,571
Appropriations	(660)	(22,045)	(22,705)
Other changes	(4,114)	8,415	4,301
<b>Endowment net assets, end of year</b>	<b>\$ 36,987</b>	<b>\$ 826,461</b>	<b>\$ 863,448</b>

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
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)
<b>Total investment return</b>	<b>(92)</b>	<b>(6,453)</b>	<b>(6,545)</b>
Contributions	—	13,976	13,976
Appropriations	(1,339)	(26,239)	(27,578)
Other changes	(5,610)	11,179	5,569
<b>Endowment net assets, end of year</b>	<b>\$ 31,380</b>	<b>\$ 618,121</b>	<b>\$ 649,501</b>

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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 U.S. GAAP, deficiencies of this nature are reported in net assets with or without donor restrictions and aggregated to approximately \$0 and \$24 million at June 30, 2021 and 2020, respectively, 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 that 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 (i.e., "spending policy") of appropriating for expenditure each year a percentage of certain endowment funds' average market values over the prior twelve-quarters 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 May 2020, the Board of the Foundation approved a 3.00% spending policy for the fiscal year 2020-2021 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.

In April 2021, the Board of the Foundation approved a 3.00% spending policy for the fiscal year 2021-2022 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.

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The Foundation has adopted an investment objective to preserve its purchasing power while providing a continuing, stable, and sustainable funding source to support the current and future mission of the University. The Foundation's investments seek to generate a total return that will exceed not only its spending rate, but also all expenses associated with managing the fund and the eroding effects of inflation. Investments are managed on a total return basis, consistent with the applicable standard of conduct set forth in the UPMIFA. The annual return (loss) for total endowment assets was 34% and (1.7%) in 2021 and 2020, respectively.

**3. ULF - Investments and Investment Income**

Investments as of June 30, 2021 and 2020, are as follows (in thousands):

	2021	2020
Cash equivalents	\$ 50,790	\$ 55,291
Alternate investments:		
Hedge Funds	137,470	129,057
Investments in partnerships	451,571	328,695
Mutual funds:		
Equity	153,005	88,244
Fixed Income	18,837	18,455
Marketable alternatives:		
Domestic marketable equity securities	50,996	37,561
Marketable debt securities:		
U.S. Treasury	42,408	25,508
<b>Total Investments</b>	<b>\$ 905,077</b>	<b>\$ 682,811</b>

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 changes could materially affect the investment amounts reported on 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. 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.



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The major portion of long-term investments is pooled in the total endowment assets, which is the main endowment pool for the Foundation. The total endowment assets are 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.

**4. ULF - Guarantees**

**a. Loans**

As of June 30, 2021 and 2020, 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 collect expenses and costs. The total amount approved for loans was approximately \$1.6 million, with \$511,000 and \$621,000 outstanding as of June 30, 2021 and 2020, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2021 and 2020, the amount under guarantee was \$6.6 million and \$6.9 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.

**5. 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 \$35 million and \$26 million as of June 30, 2021 and 2020, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately \$40 million and \$32 million as of June 30, 2021 and 2020, respectively. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2021 and 2020, the Foundation recorded income of \$18 million and \$2.2 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.

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**6. 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, 2021 and 2020, the Foundation held approximately \$3.5 million and \$5.5 million, respectively, for the Association's investment purposes.

The Foundation entered into an agreement with Legacy Foundation of Kentuckiana, formerly 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, 2021 and 2020, the Foundation held approximately \$10.7 million and \$8.0 million, respectively, 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, 2021 and 2020, the Foundation held approximately \$274,000 and \$200,000, respectively, 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 on the consolidated statements of activities, since these earnings are distributed to the owners of the funds.

**7. ULF - Transactions with ULREF**

Included in the spending policy contribution to the University is a specific component designed to approximate the Foundation's allocated portion of salaries, benefits, and certain other administrative support costs related to fundraising and advancement. These amounts were approximately \$6.3 million and \$6.0 million for the years ended June 30, 2021 and 2020, respectively, and are included in contributions and allocations to the University departments on the consolidated statements of activities and changes in net assets.

For the years ended June 30, 2021 and 2020, the Foundation recorded approximately \$2.3 million in revenues from the University and related affiliates, which is included in net rental revenues and other revenues on the consolidated statements of activities and changes in net assets.

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, 2021 and 2020, the net receivable from ULREF is \$12.1 million and \$16.7 million, respectively, and is included as due from ULREF on the consolidated statements of financial position. The amount due from ULREF is included within the endowment assets as of June 30, 2021 and 2020. See Note 7 for further information regarding the endowment.

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**d. University of Louisville Real Estate Foundation**

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

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

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

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

**1. ULREF - Description of Organization and Summary of Significant Accounting Policies**

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

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

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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 and the University's Belknap Campus area.

For the years ended June 30, 2021 and 2020, ULREF recorded approximately \$7.6 million and \$1.9 million, respectively, of TIF revenues.

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**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, 2022 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. ULREF - Capital Assets**

Capital assets at June 30, 2021 and 2020, consist of the following (in thousands):

	2021	2020
Land and land improvements	\$ 49,642	\$ 49,622
Buildings	100,652	100,864
Building improvements	2,153	2,153
Tenant finish	3,542	3,542
Furniture, fixtures, and equipment	2,622	2,576
	158,611	158,757
Accumulated depreciation	(18,977)	(14,569)
Construction-in-progress	975	1,106
	\$ 140,609	\$ 145,294

**3. ULREF - Acquired Lease Intangible Assets and Liabilities**

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2021 and 2020, were as follows (in thousands):

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets and liabilities:				
In-place leases	\$ 354	\$ (310)	\$ 431	\$ (377)
Above-market leases	2,917	(774)	2,925	(659)
Tax incremental financing	116,600	(25,421)	116,600	21,057

Amortization expense for each of the years ended June 30, 2021 and 2020, was approximately \$4.5 million and \$4.7 million, respectively.

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At June 30, 2021, the amortization for acquired TIF intangibles, in-place leases, and above- and below-market leases, net during the next five years and thereafter, assuming no early lease terminations, is as follows (in thousands):

	In-Place Leases	Above- Market Leases	Tax Incremental Financing
2022	\$ 11	\$ 123	\$ 4,364
2023	11	123	4,364
2024	11	123	4,364
2025	9	123	4,364
2026	2	123	4,364
Thereafter	—	1,528	69,359
<b>Total</b>	<b>\$ 44</b>	<b>\$ 2,143</b>	<b>\$ 91,179</b>

**4. ULREF - Debt**

Debt in the consolidated statements of financial position at June 30, 2021 and 2020, consists of the following (in thousands):

Description	Fiscal Year of Maturity	2021	2020
Permanent Financing- 22 Preston LLC	2024	8,406	8,873
Note Payable - KYT, LLC	2022	12,000	12,000
Northwestern Mutual Loan- Housing	2038	38,546	39,934
Debt		\$ 58,952	\$60,807
Less debt issuance		(451)	(512)
<b>Total debt</b>		<b>\$ 58,501</b>	<b>\$60,295</b>

Preston had a construction loan agreement with a bank with a maximum draw available amount of \$10.1 million, which was secured by Preston's real estate and assignment of lease. The terms of the agreement required Preston to maintain a debt service coverage ratio of 1.00 to 1.00, which was measured annually on December 31.

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Preston refinanced the construction loan in June 2020. 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, 2021, 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 terms of this note were modified in July 2021. The modified note has an interest rate of 1.95% per annum plus the one-month LIBOR rate. Interest only is payable beginning July 1, 2021, and on the first day of each consecutive month thereafter, with the remaining \$12 million principal due in full in July 2023. 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, 2021.

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

Year ending June 30:		
2022	\$	1,798
2023		1,987
2024		21,067
2025		1,672
2026		1,754
Thereafter		30,674
<b>Total</b>	<b>\$</b>	<b>58,952</b>

**5. ULREF - Leasing Activities**

ULREF leases space to tenants under noncancelable operating leases. As of June 30, 2021, ULREF had various leases expiring monthly to 85 years, through 2106. These leases generally require ULREF to pay all executory costs (property taxes, maintenance, and insurance).

Rental revenue for the years ended June 30 was as follows (in thousands):

	2021	2020
Base minimum rents	\$ 12,198	\$ 13,059
Common area maintenance	139	130
<b>Total</b>	<b>\$ 12,337</b>	<b>\$ 13,189</b>

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

Year ending June 30:		
2022	\$	2,896
2023		2,386
2024		2,347
2025		1,799
2026		1,585
Thereafter		20,463
<b>Total</b>	<b>\$</b>	<b>31,476</b>

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.

**d. 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.

UMC is a nonprofit corporation incorporated on June 27, 1995. Norton Healthcare, Inc. (Norton), a Kentucky nonprofit corporation, Jewish Hospital & St. Mary's Healthcare, Inc. (formerly known as Jewish Hospital HealthCare Services, Inc. (Jewish)), a Kentucky nonprofit corporation, and UofL were the original members of a corporation. Effective July 1, 2007, Norton and Jewish resigned from the Board and UMC reverted to a nonmember, nonprofit corporation under Kentucky Revised Status Chapter 273.

Additionally, effective July 1, 2017, an amended and restated lease agreement between the Commonwealth of Kentucky, UofL and UMC was entered into. The Corporation also entered into an Amended and Restated Academic Affiliation Agreement (AAA) 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 AAA with UofL was superseded by the Master Academic Affiliation Agreement (MAAA) between UofL, UMC, Jewish Hospital and Jewish Hospital Shelbyville, effective November 1, 2020. The initial term of the MAAA is twenty-five years from the effective date with five-year renewal terms in accordance with the agreement.



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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. Additionally, as part of this transaction a portion of the acquisition was allocated and assigned to ULP.

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, 2021 and 2020, ULP has seventeen clinical departments. ULP became a wholly owned subsidiary of UofL Health effective November 1, 2019.

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. Change in Accounting Principle**

On July 1, 2020, the Corporation adopted the new revenue recognition accounting standard issued by the FASB and codified in FASB Accounting Standards Codification (ASC) 606. The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. The standard also requires expanded disclosures regarding the Corporation's revenue recognition policies and significant judgements employed in the determination of revenue.

The Corporation applied the modified retrospective approach to all contracts when adopting ASC 606. As a result, upon the Corporation's adoption of ASC 606, the majority of what was previously classified as the provision for bad debts in the statement of operations and changes in net assets is now reflected as implicit price concessions (as defined in ASC 606) and therefore is included as a reduction to patient care service revenues for the year ending June 30, 2021. For periods prior to the adoption of ASC 606, the provision for bad debts was presented consistent with the previous revenue recognition standards that required such provision to be presented separately as a component of net operating revenues.

Additionally, upon adoption of ASC 606, the allowance for doubtful accounts of approximately \$97.4 million as of June 30, 2020, was reclassified as a component of patient accounts receivable. Other than these changes, the adoption of ASC 606 did not have a material impact on the 2020 financial statements and the Corporation does not expect it to have a material impact on its results of operations on a prospective basis. As part of the adoption of ASC 606, the Corporation elected two of the available practical expedients provided for in the standard. First, the Corporation does not adjust the transaction price for any financing components as those were deemed insignificant. Additionally, the Corporation expenses all incremental customer contract acquisition costs as incurred because such costs are not material and would be amortized over a period of less than one year.

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**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):

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

Further, in conjunction with the acquisition, the Corporation received donor restricted gifts of approximately \$50.0 million, which have been recognized as contributions in the statements of operations and changes in net assets. \$40.0 million of the contributions were included within the asset purchase agreement to be paid by the seller entities to the buyer entities over a four-year period. Additionally, the Corporation received a \$10.0 million pledge from the Jewish Heritage Fund for Excellence, Inc. for the acquisition and operation of the acquired entities.

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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.

The total amount of net asset transfers relating to UMC and ULP was \$268.5 million.

**3. Patient Accounts Receivable**

The Corporation provides services without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors as of June 30, 2021 and 2020, is as follows:

	2021	2020
Medicare	13 %	14 %
Medicaid	3 %	4 %
Managed care	39 %	31 %
Commercial and other	44 %	49 %
Self-pay	1 %	2 %
	<b>100 %</b>	<b>100 %</b>

**4. Net Patient Service Revenue**

The composition of patient care service revenue by primary payor for the year ended June 30, is as follows:

	2021
Medicare	25 %
Medicaid	16 %
Managed Care	8 %
Commercial and other	50 %
Self-pay	1 %
	<b>100 %</b>

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**5. Passport Health Plan by Molina Healthcare**

Passport is a comprehensive risk-based entity that has separate financial statements available. The Corporation has a 0% and 63.88% sponsorship interest in Passport as of June 30, 2021 and 2020, respectively. During 2020, the Corporation received approximately \$34.3 million as part of the sale of certain Passport assets and is expecting to receive the outstanding payment amount of \$10.3 million from the sale of such assets during the year ending June 30, 2022. The outstanding balance due of \$10.3 million is recorded in other accounts receivable on the balance sheet as of June 30, 2021, and within other assets as of June 30, 2020. During 2021, the Corporation sold its 19.16 shares of common stock in Passport, which resulted in a gain of \$12.8 million and is recorded within equity in earnings of affiliates on the statement of operations and changes in net assets.

**6. Refundable Advances**

During 2020, Provider Relief Fund (PRF) grants authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act were distributed to healthcare 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 \$135.6 million. PRF grants of approximately \$88.2 million are included in the consolidated statement of operations and changes in net assets as federal grants

The guidance issued by the grantor to define eligible expenses and, more specifically, to determine changes in patient care service revenues related to the pandemic that would be eligible for reimbursement is evolving and is uncertain as of the date the 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 Corporation has recorded a reserve of approximately \$16.6 million and \$55.3 million as refundable advance liabilities on the balance sheets as of June 30, 2021 and 2020, respectively.

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 healthcare 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 passed on September 30, 2020 allowed providers to extend repayment for a full year before recoupment begins. The recoupment process began April 2021 and payment for submitted claims is to 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 balance sheet.

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As of and for the year ended June 30, 2021, revenues recognized and refundable advances were as follows:

	Revenue Recognized	Refundable Advances	Total
Provider relief fund	\$ 88,189	\$ 16,604	\$ 104,793
Medicare accelerated and advance payment program	—	115,344	115,344
<b>Ending balance as of June 30, 2021</b>	<b>\$ 88,189</b>	<b>\$ 131,948</b>	<b>\$ 220,137</b>

As of June 30, 2020, refundable advances were as follows:

	Refundable Advances
Provider relief funds	\$ 55,262
Medicare accelerated and advance payment program	130,541
<b>Ending balance as of June 30, 2020</b>	<b>\$ 185,803</b>

**7. 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)**

	6/30/2021	6/30/2020	6/30/2019	6/30/2018
<b>Total OPEB liability</b>				
Service Cost	\$ 2,538	\$ 2,437	\$ 4,630	\$ 5,203
Interest	2,318	2,497	3,296	2,728
Difference between expected and actual experience	(1,687)	1,923	(1,718)	(2,608)
Changes of assumption	5,757	5,488	(27,504)	(5,495)
Benefit payments	(2,927)	(2,836)	(2,817)	(3,007)
<b>Net change in OPEB Liability</b>	<b>5,999</b>	<b>9,509</b>	<b>(24,113)</b>	<b>(3,179)</b>
OPEB liability - beginning of year	74,239	64,730	88,843	92,022
<b>OPEB liability - end of year</b>	<b>80,238</b>	<b>74,239</b>	<b>64,730</b>	<b>88,843</b>
<b>Covered employee payroll</b>	<b>\$ 490,221</b>	<b>\$ 493,893</b>	<b>\$ 450,332</b>	<b>\$ 445,356</b>
<b>Total OPEB liability as a percentage of covered employee</b>	<b>16.37 %</b>	<b>15.03 %</b>	<b>14.37 %</b>	<b>19.95 %</b>

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.



## 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 the business-type activities, the aggregate discretely presented component units of University of Louisville, collectively a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise University of Louisville's basic financial statements, and have issued our report thereon dated October 19, 2021. The financial statements of University of Louisville Health, Inc. (UofL Health), University of Louisville Real Estate Foundation, Inc. (ULREF), and the University of Louisville Foundation, Inc. and Affiliates (the Foundation) 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 associated with UofL Health, ULREF, and the Foundation.

### 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as item 2021-001 that we consider to be a significant deficiency.

### **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 financial statements. 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*.

### **University of Louisville's Response to Findings**

University of Louisville's response to the findings identified in our audit is described in the accompanying Schedule of Findings. University of Louisville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

St. Louis, Missouri  
October 19, 2021



UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS  
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Schedule of Findings  
For the Year Ended June 30, 2021

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**Section I – Financial Statement Findings**

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Our audit did not disclose any matters required to be reported in accordance with *Government*.

**2021 – 001: Audit Adjustments**

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting.

**Condition:** During the audit process, two material audit adjustments were recorded to increase revenue and expenses by approximately \$70,891,000, and to increase grants accounts receivable, decrease deferred revenues and increase bad debt expense by approximately \$6,957,000, \$5,050,000, and \$1,907,000, respectively.

**Criteria:** The University must have controls in place to ensure that non-routine transactions are properly recorded. Additionally, the University must have controls in place to ensure grant transactions and account balances are reconciled and properly recorded.

**Effect:** Lack of controls in place to ensure non-routine transactions and grant account balances are properly recorded may result in the preparation of the Financial Statements that inaccurately reflect the financial position of the University.

**Cause:** The University's controls were not operating effectively to be able to properly record non-routine transactions. Additionally, the University's controls were not operating effectively to ensure grant transactions and account balances were properly recorded.

**Repeat Finding:** No

**Recommendation:** The University should pursue consultation on all non-routine transactions to ensure they are properly recorded. Additionally, the University should implement policies and procedures to ensure grant transactions and account balances are reconciled and reviewed on a timely basis.

**Views of responsible officials and planned corrective actions:** The University places significant importance on establishing sound internal controls and ensuring those controls are effectively executed, monitored, and revised as needed. The finding related to materially adjusting revenues and expenses stems from payments made to the Commonwealth for enhanced Medicaid reimbursement requests that ultimately flow to the affiliated health system. Historically, the University has netted these payments with Medicaid revenues as these enhanced reimbursements are a mandatory revenue match and did not result in earned income to the University. However, in FY21, the University restructured the funds flows between the affiliated organizations and began to make the enhanced payment requests on behalf of the affiliated health system. Those payments were identified as expenses instead of reductions of revenue. This revised (and corrected) accounting has been identified and was applied to FY21 and will be applied going forward for the enhanced payment requests made on behalf of operating partners. The University does maintain a protocol for evaluating the technical accuracy of accounting transactions and, when appropriate, shares with the external auditor for validation and will continue that practice in a more expansive manner.

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The finding related to grants receivables was brought about by turnover of individuals responsible for billing. After the turnover, billing activities were not correctly processed resulting in a build up of balances in deferred revenues and accounts receivable. Identification of the issue has resulted in correction of the billing activities and review of the deferred revenue and accounts receivable balances to determine corrections needed. Going forward, the University has restaffed the vacated function and will establish formal process to process grant receivables along with an additional review of grant accounts receivables and deferred revenues to identify variances and anomalies, along with keeping an adequate reserve for uncollectible accounts. The review will be performed by individuals in grants management with quarterly oversight by Controller's Office.