

**UNIVERSITY OF LOUISVILLE AND AFFILIATED
CORPORATIONS**

A Component Unit of the Commonwealth of Kentucky

**Auditor's Report and Financial Statements
June 30, 2022 and 2021**



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UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
For the Years Ended June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
University of Louisville and Affiliated Corporations
Louisville, Kentucky

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities, the 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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the University of Louisville's basic financial statements as listed in the table of contents.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, collectively a component unit of the Commonwealth of Kentucky, as of June 30, 2022 and 2021, 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.

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 as of June 30, 2022 and 2021. 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. The financial statements of UofL Health, ULREF and the Foundation were not audited in accordance with *Government Auditing Standards*.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the University of Louisville and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of a Matter

As disclosed in Note 1, the University implemented the provisions of Governmental Accounting Standards Board Statement No. 87 – Leases. The Standard requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Louisville’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University of Louisville’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University of Louisville's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion Analysis on pages 4 through 16 and the Post-employment Benefit Information on page 74 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022, 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 results 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 31, 2022

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, 2022 and 2021

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, 2022 and 2021. Comparative information for the year ended June 30, 2020 has been provided where applicable. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association (Association), both blended component units of the University. The University of Louisville Foundation, Inc., University of Louisville Real Estate Foundation, Inc., and UL Health, Inc. are discretely presented component units of the University. The financial results of the discretely presented component units are presented in columnar format along side the University's financial statements with additional information presented in the notes to the financial statements. Comments presented in the management's discussion and analysis pertain to the university and its blended component units only and should be read in conjunction with the financial statements and notes that follow this section.

The University of Louisville is a state-supported research university located in Louisville, Kentucky. It was a municipally supported public institution for many decades prior to joining the university system in 1970. The University has three campuses. The 287-acre Belknap Campus is three miles from downtown Louisville and houses eight of the university's 12 colleges and schools. The Health Sciences Campus is situated in downtown Louisville's medical complex and houses the university's health-related programs and the University of Louisville healthcare enterprise (both in and out patient). 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, 2022, were \$878.5 million, a decrease of \$26.6 million from the June 30, 2021 balance of \$905.1 million .

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

UL Health, Inc. (UL Health): UL Health is a nonprofit corporation with the purpose to support the university and its school of medicine along with providing patient care.

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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 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 and to provide aid to students. The funds were utilized over the 2020, 2021, and 2022 fiscal years. The University continues to monitor for outbreaks of the Coronavirus to anticipate the need for responses and altered operations, if appropriate.

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 sites, and real-time communications through emails and dedicated websites. The University, along with its affiliated hospital, offered COVID-19 testing and 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.

The University adopted GASB 87-*Leases* during the current year and retroactively applied the standard to the beginning of the prior period, July 1, 2020. The new accounting standard results in new assets and liabilities related to the use of leased assets. Notes 1 and 9 provide explanation and detail about the accounting change. The 2021 financial statements have been restated to reflect the accounting change as of the beginning of the period.

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.

Statements of Net Position

The statements of net position present a snapshot of 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. 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.

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A condensed version of the University's assets, liabilities, and net position at June 30, 2022, 2021, and 2020 (in thousands) is summarized below:

| | 2022 | 2021 (Restated) | 2020 | 2022-2021 Change | 2021-2020 Change |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Current assets | \$ 436,636 | \$ 403,803 | 261,092 | \$ 32,833 | \$ 142,711 |
| Noncurrent assets | 828,522 | 834,362 | 164,844 | (5,841) | 669,518 |
| Capital assets, net | 1,127,182 | 1,133,848 | 1,078,175 | (6,665) | 55,673 |
| Deferred outflows of resources | 19,129 | 17,305 | 13,687 | 1,824 | 3,618 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2,411,469 | 2,389,318 | 1,517,798 | 22,151 | 871,520 |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | | |
| Current liabilities | 197,413 | 201,020 | 163,319 | (3,607) | 37,701 |
| Noncurrent liabilities | 454,663 | 459,907 | 373,204 | (5,244) | 86,703 |
| Deferred inflows of resources | 719,905 | 742,119 | 65,829 | (22,214) | 676,290 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | 1,371,981 | 1,403,046 | 602,352 | (31,065) | 800,694 |
| NET POSITION | | | | | |
| Net investment in capital assets | 792,372 | 800,249 | 825,433 | (7,877) | (25,184) |
| Restricted - nonexpendable | 1,831 | 1,868 | 1,349 | (37) | 519 |
| Restricted - expendable | 75,293 | 73,377 | 84,417 | 1,916 | (11,040) |
| Unrestricted | 169,992 | 110,778 | 4,247 | 59,214 | 106,531 |
| TOTAL NET POSITION | 1,039,488 | 986,272 | 915,446 | 53,216 | 70,826 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 2,411,469 | \$ 2,389,318 | \$ 1,517,798 | \$ 22,151 | \$ 871,520 |

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 \$32.8 million for the year ended June 30, 2022 as compared to June 30, 2021 is mainly attributed to increases in cash and equivalents of \$14.3 million, and short term investments of \$40.0 million. The increase in cash and cash equivalents is the product of the University's diligence in controlling expenditures.

Noncurrent assets decreased \$12.5 million in fiscal year 2022, the majority of the decrease is attributed to a decrease in restricted cash of \$29.0 million along with a decrease in capital assets of \$4.1 million. Other long-term investments helped to minimize the reductions noted with an increase of \$20.1 million year over year.

In fiscal year 2021, current assets increased \$142.7 million is mainly attributed to an increase in cash and equivalents of \$64.4 million, an increase of \$38.1 million in funds due from affiliates and a reduction of \$2.1 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 \$725.2 million in fiscal 2021. The adoption of lease accounting added \$675 million in long term accounts receivable, mostly due from an affiliate for hospital leases, and the addition of the right-of-use asset of \$64 million representing the future value of the leased assets.

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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 2022, deferred outflows increased \$1.8 million to \$19.1 million as compared to \$17.3 million as of June 30, 2021.

The increase in deferred outflows of resources as of June 30, 2021 was \$3.6 million over the balance of \$13.7 million as of June 30, 2020.

Liabilities

Current liabilities decreased by \$3.6 million in fiscal year 2022 as compared to 2021. Accounts payable and accrued liabilities account for \$0.6 million of the decrease.

Noncurrent liabilities decreased \$5.2 million during fiscal year 2022. Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. This balance decreases by \$6.1 million primarily from bond issuance and master lease draws offset by normal principal payments. Other long-term liabilities includes future estimated payments for OPEB which increased by \$5.7 million.

Current liabilities increased by \$37.7 million in fiscal year 2021 as compared to 2020. Accounts payable and accrued liabilities and advances comprise 82% of total current liabilities and increased by \$25.3 million in fiscal year 2021. A line of credit was obtained by the Association during the fiscal year 2021 and accumulated draws of \$9.0 million. The \$86.7 million increase in noncurrent liabilities during fiscal year 2021 primarily is due to a new bond issuance, master lease draws offset by normal principle payments, and lease payables. Long term lease payables of \$59.1 million were added as a result of the adoption of new lease accounting rules. Other long-term liabilities includes future estimated payments for OPEB which increased by \$6.0 million.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. Deferred inflows decreased by \$22.2 million during fiscal year 2022. The most significant decreases are attributed to future revenues from leased assets of \$15.2 million and changes in assumptions used in the calculation of the OPEB liability of \$4.0 million.

In fiscal year 2021 the University recognized an increase of \$676.3 million. Deferred inflows of \$380.6 million were recognized for future revenues to be earned from leased University assets, in accordance with the new lease accounting rules.

Net Position

In fiscal year 2022, net position increased \$53.2 million. The University continues to strengthen its net position through operational diligence and improvements. The University benefited from an increase in unrestricted net position of \$75.2 million but was negatively impacted by a reduction of \$9.6 million in capital assets and a reduction of \$13.1 million in restricted expendables.

In fiscal year 2021, net position increased \$70.8 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 \$47.7 million more 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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Statements of Revenues, Expenses, and Changes in Net Position

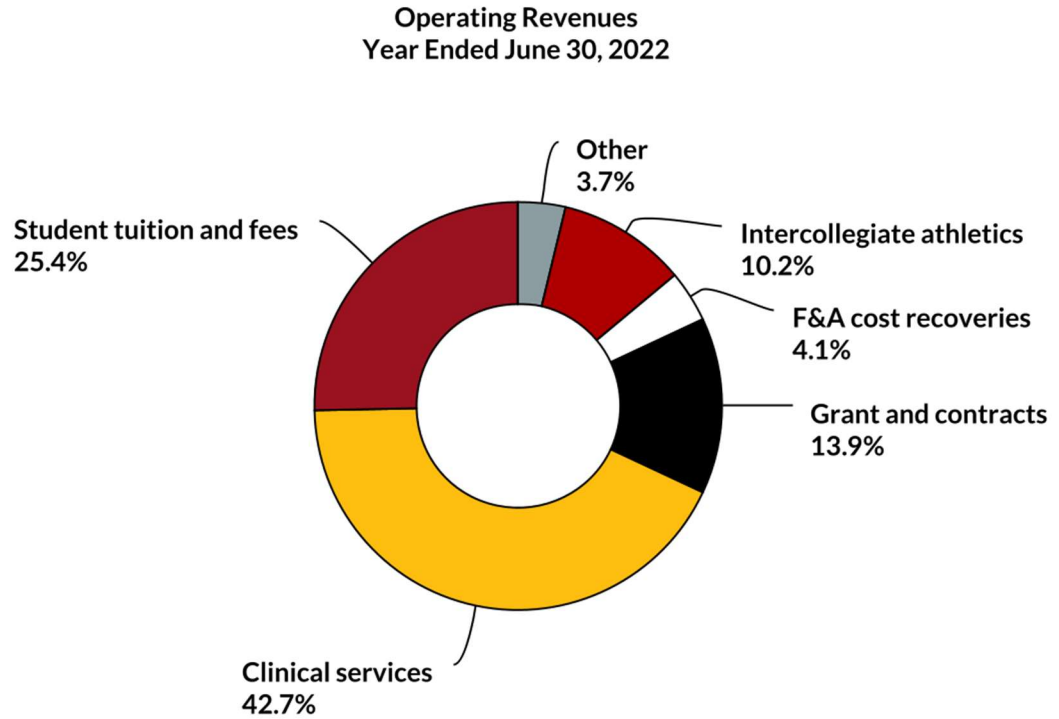
The University's condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2022, 2021, and 2020 (in thousands) are summarized below:

| | 2022 | 2021 (Restated) | 2020 | 2022-2021 Change | 2021-2020 Change |
|--|---------------------|--------------------|-------------------|---------------------|---------------------|
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 240,060 | \$ 231,505 | \$ 227,233 | \$ 8,555 | \$ 4,272 |
| Clinical services and practice plan | 404,628 | 388,069 | 329,392 | 16,559 | 58,677 |
| Grants and contracts | 132,023 | 107,418 | 109,399 | 24,605 | (1,981) |
| Facilities and administrative cost | 38,714 | 32,434 | 28,452 | 6,280 | 3,982 |
| Intercollegiate athletics | 96,940 | 62,384 | 86,559 | 34,556 | (24,175) |
| Other | 35,167 | 28,373 | 35,818 | 6,794 | (7,445) |
| TOTAL OPERATING REVENUE | 947,532 | 850,183 | 816,853 | 97,349 | 33,330 |
| OPERATING EXPENSES | | | | | |
| Depreciation | 61,983 | 63,128 | 56,840 | (1,145) | 6,288 |
| Other | 1,140,773 | 994,553 | 978,913 | 146,220 | 15,640 |
| TOTAL OPERATING EXPENSE | 1,202,756 | 1,057,681 | 1,035,753 | 145,075 | 21,928 |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 131,725 | 125,420 | 128,712 | 6,305 | (3,292) |
| Other nonoperating revenues | 176,715 | 152,904 | 142,189 | 23,811 | 10,715 |
| TOTAL NONOPERATING REVENUE/(EXPENSES) | 308,440 | 278,324 | 270,901 | 30,116 | 7,423 |
| INCREASE/(DECREASE) IN NET POSITION | 53,216 | 70,826 | 52,001 | (17,610) | 18,825 |
| SPECIAL ITEMS | | | | | |
| Transfer of operations | — | — | 132,413 | — | (132,413) |
| INCREASE/(DECREASE) IN NET POSITION AFTER SPECIAL ITEMS | 53,216 | 70,826 | 184,414 | (17,610) | (113,588) |
| Net position - beginning of year | 986,272 | 915,446 | 731,032 | 70,826 | 184,414 |
| Net position - end of year | \$ 1,039,488 | \$ 986,272 | \$ 915,446 | \$ 53,216 | \$ 70,826 |

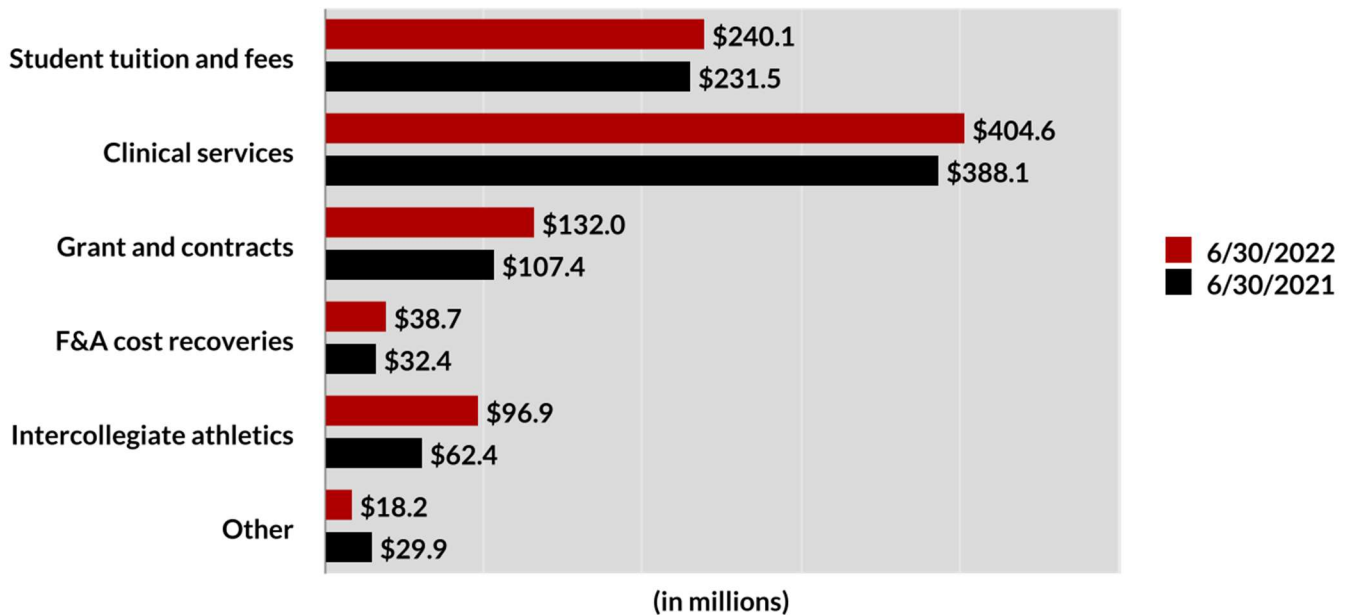
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Operating Revenues

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, 2022 and 2021:



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 non-operating revenues as defined by GASB.

Student tuition and fees, net of allowances for scholarships and fellowships were \$240.1 million and \$231.5 million, or 25.4% and 27.2% of total operating revenues for the years ended June 30, 2022 and 2021, respectively. The University adopted a 1.8% gross tuition rate increase for fiscal year 2022 and had a 2.0%-3.0% gross tuition rate increase for fiscal year 2021. 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. 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 \$404.6 million and \$388.1 million, or 42.8% and 45.6% of total operating revenues for fiscal years 2022 and 2021, 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 4.3% increase in revenue for 2022 totaling \$16.6 million resulted from improved academic affiliation and clinical practice agreements for the pediatric services of the Medical School and additional academic mission support provided by positive hospital operations. 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 totaled \$132.0 million and \$107.4 million for the years ended June 30, 2022 and 2021, respectively, an increase of \$24.6 million. This increase in fiscal year 2022 consists of an increases in federal grants and contracts of \$15.0 million, State and local grants of \$7.2 million and Nongovernmental grants \$2.4 million.

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 \$38.7 million and \$32.4 million for the years ended June 30, 2022 and 2021, 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. These Pandemic restrictions started to lift during fiscal year 2022 which contributed to the increase in intercollegiate revenues outlined. Revenues for intercollegiate athletics were \$96.9 million for the year ended June 30, 2022, an increase of \$34.6 million from \$62.4 million for the year ended June 30, 2021. The 55.4% rise was mostly in ticket sales from football and basketball. Auxiliary revenues from housing and parking also increased by \$3.5 million during the year ended June 30, 2022 as compared to the year ended June 30, 2021. On campus activities and classes increased during the year which also increased the demand for campus housing, meal plans, and parking services.

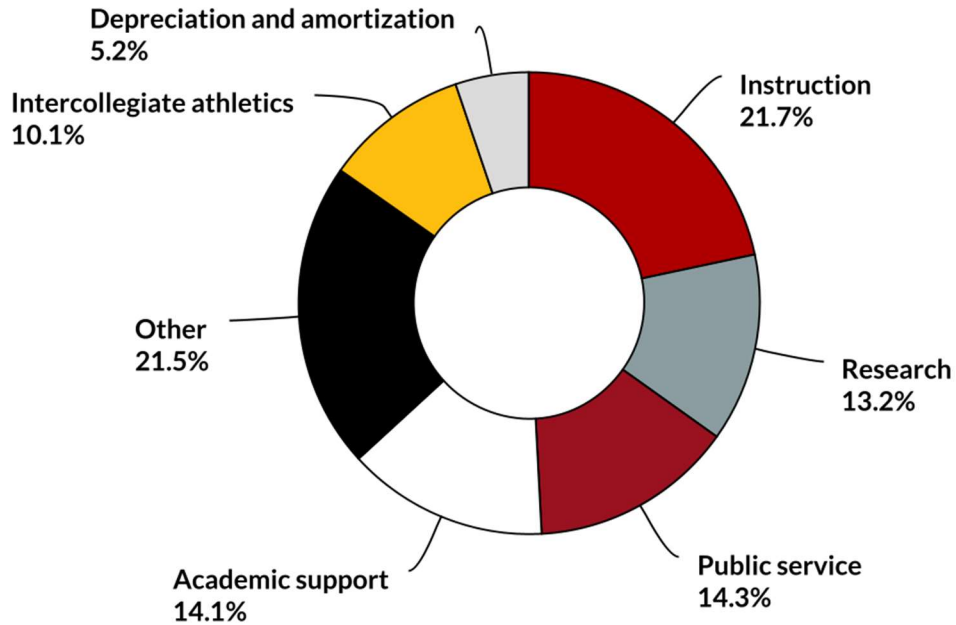
Operating revenues increased \$33.3 million in fiscal year 2021 over fiscal year 2020. The most significant increases coming from clinical services and practice plan of \$58.7 million due to increased programmatic support and tuition and fees of \$4.3 million due to an increase in the tuition rate. Overall, revenues from grants and contracts decreased \$2.0 million with the most significant declined being recorded in nongovernmental grants and contracts of \$6.1 million. Federal grants and contracts helped neutralize the decline with an year over year increase of \$5.3 million.

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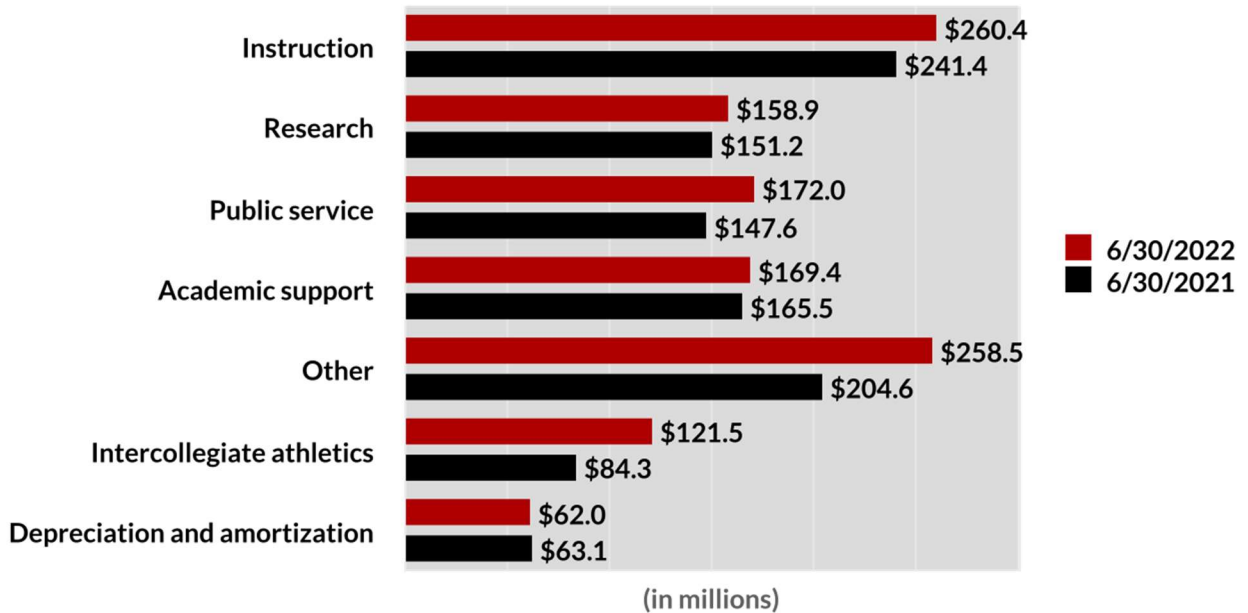
Operating Expenses

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2022 and 2021 are summarized below:

Operating Expenses by Functional Classification
Year Ended June 30, 2022

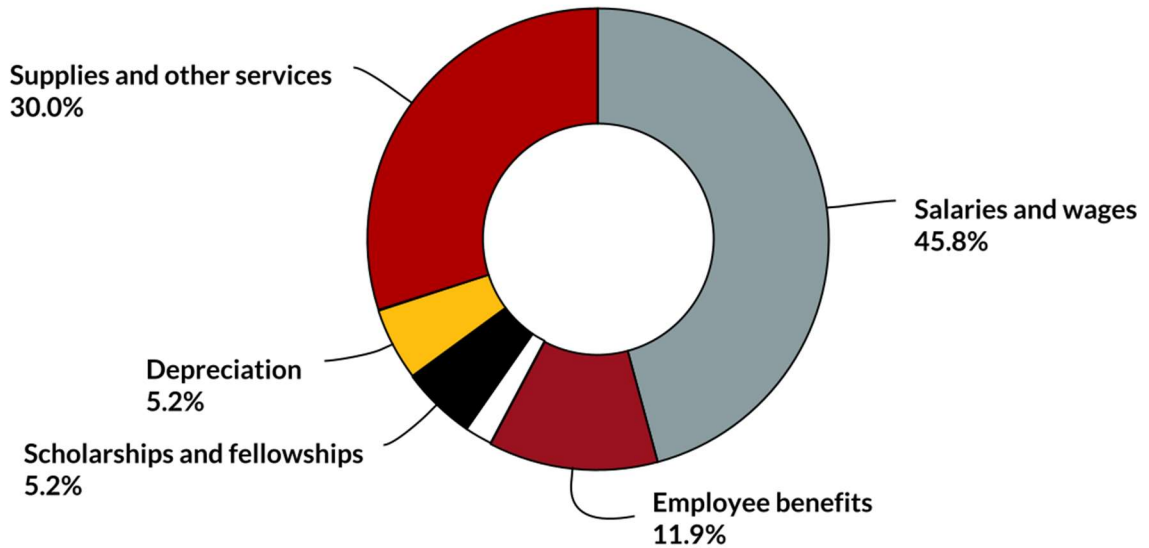


Functional Expense Trends

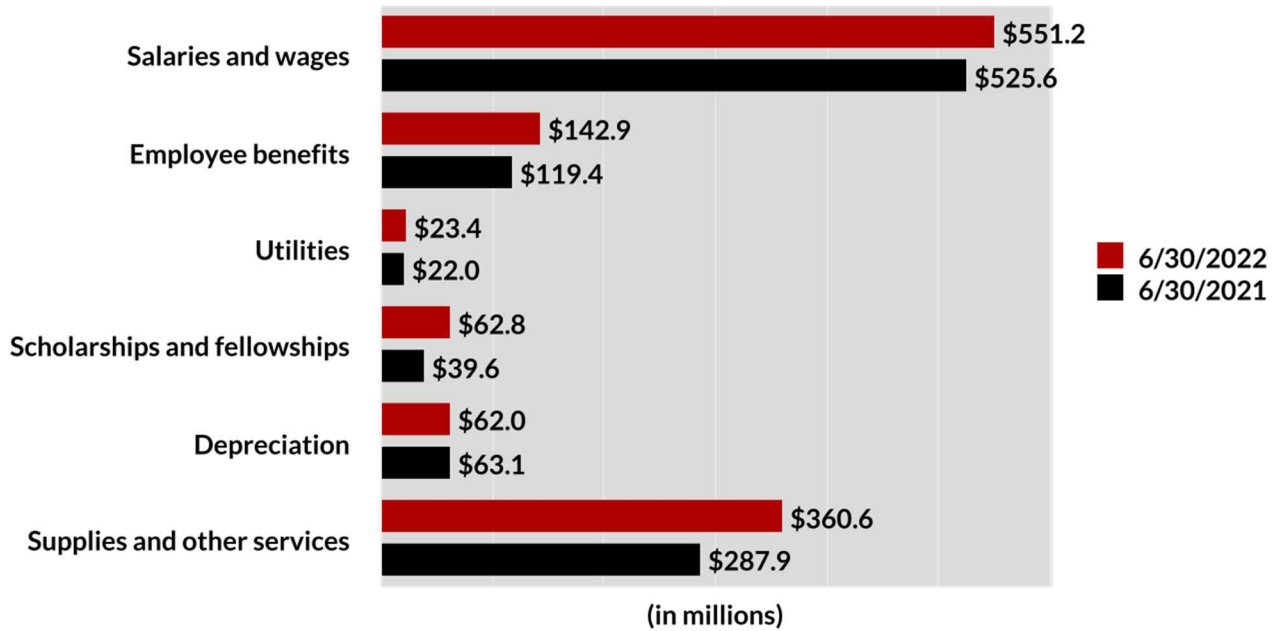


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Operating Expenses by Natural Classification
Year Ended June 30, 2022



Natural Expense Trends



Operating expenses were \$1.20 billion and \$1.06 billion and exceeded operating revenues by \$255.2 million and \$207.5 million for the years ended June 30, 2022 and 2021, respectively. In fiscal 2022, operating expenses increased \$145.1 million or 13.8%. Expenses in most functional classifications increased, the most significant being intercollegiate athletics of \$37.3 million and public service of \$24.4 million.

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With the effects of the Pandemic beginning to minimize non-critical maintenance and purchases that were previously put on hold due to cost saving measures were released for spending. Salary cuts that were temporary were reinstated, furloughs ended, and retirement benefits reductions were brought back to pre-pandemic standards. This increased our salaries and wages by \$25.6 million and increased employee benefits by \$23.5 million.

Operating expenses increased \$21.9 million in fiscal year 2021 over fiscal year 2020. The most significant increases were in public service of \$31.4 million, academic support of \$15.5 million, and research of \$12.9 million.

Nonoperating Revenues (Expenses)

Nonoperating revenue and expenses, net, experienced an overall increase of \$29.2 million in fiscal year 2022. Many categories experienced an increase in revenues. Gifts and donations increased by 55.8% or \$11.9 million, nonexchange grants and contracts grew by \$8.1 million, and State appropriations increased by \$6.3 million. Investment income declined \$0.2 million as interest rates remained low.

Nonoperating revenue and expenses, net, increased \$7.6 million in fiscal year 2021. This increase is attributed to the growth in nonexchange grants and contracts of \$23.6 million. These gains were offset by a decline of gifts and donations of \$14.4 million and decreased contributions from the Foundation of \$7.4 million based on University spending of gift and endowment earnings.

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, 2022, 2021, and 2020 (in thousands) are summarized below:

| | 2022 | 2021 (Restated) | 2020 | 2022-2021 Change | 2021-2020 Change |
|--|-------------------|--------------------|-------------------|---------------------|---------------------|
| CASH (USED)/PROVIDED BY: | | | | | |
| Operating activities | \$ (220,574) | \$ (161,306) | \$ (175,912) | \$ (59,268) | \$ 14,606 |
| Noncapital financing activities | 313,393 | 267,468 | 249,148 | 45,925 | 18,320 |
| Capital and related financing activities | (47,294) | (25,514) | 217 | (21,780) | (25,731) |
| Investing activities | (60,197) | (9,166) | 11,308 | (51,031) | (20,474) |
| NET (DECREASE)/INCREASE IN CASH EQUIVALENTS | (14,672) | 71,482 | 84,761 | (86,154) | (13,279) |
| Cash and cash equivalents - beginning of year | 262,638 | 191,156 | 106,395 | 71,482 | 84,761 |
| Cash and cash equivalents - end of year | \$ 247,966 | \$ 262,638 | \$ 191,156 | \$ (14,672) | \$ 71,482 |

Total cash and cash equivalents decreased by \$14.7 million during fiscal year 2022 due to increased spending based on operations returning to activities from a time before the pandemic. Cash used in operations increased by \$59.3 million in fiscal year 2022 as compared to fiscal year 2021 as a result of the effects of the full on-campus operations. This resulted in the increase all operating cost categories as campus facilities were returned to full or almost full utilization.

Net cash provided by noncapital financing activities increased \$45.9 million, providing \$313.4 million in fiscal year 2022 as compared to \$267.5 million in fiscal year 2021. The largest contributors to this increase were increases year over year of other noncapital financing activities \$15.2 million, Due from affiliates of \$13.2 million and gifts of \$8.6 million.

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Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2022 and 2021

The University net consumed \$47.3 million in cash for capital and related financing during fiscal year 2022, \$21.8 million greater than prior year. Capital assets constructed or purchased increased by \$31.0 million mainly related to the construction of the second of two new dormitories. Proceeds from the issuance of bonds for construction of the second dormitory were utilized during the current year.

Investing activities resulted in a usage of cash of \$60.2 million during fiscal year 2022. The net increase in usage is a result of 61.1 million more of investment purchases over maturities.

Total cash and cash equivalents increased \$71.5 million in fiscal year 2021 as compared to fiscal year 2020. Cash used by operating activities decreased \$14.6 million as a result of the savings in payments to employees from reduced salaries and furloughs in the last quarter of fiscal year 2020. Clinical and contractual operations increased cash flow by \$52.6 million in fiscal year 2021 by executing contracts for pediatric operations and hospital operations that maximized profitability. Cash provided by noncapital financing activities increased \$18.3 million. The increase represents increases in gift and contribution revenue to the University. Gift revenue from athletics pledges and donations increased by \$5.7 million while contributions from the Foundation decreased \$33.2 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 \$25.7 million in fiscal year 2021 as compared to fiscal year 2020. Capital assets constructed or purchased increased by \$21.4 million and is directly offset by reductions of capital appropriations and gifts of \$886 thousand. 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 \$9.2 million in cash during fiscal year 2021, \$20.5 million less than fiscal 2020. The net decrease is a result of a lack of maturing investments.

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 \$4.1 million. The most significant capital projects and acquisitions completed during the fiscal year ended June 30, 2022 are listed below (in millions):

| Project | Capitalized Cost |
|-----------------------|------------------|
| New Residence Hall #1 | \$ 34.2 |

The University is undertaking a significant asset preservation project directed toward improving campus safety, and preservation of education and general facilities. The University was allotted \$81.9 million from the State to be received in two equal installments over two budget years.

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Significant projects identified in the asset preservation project and other campus construction plans in progress, or in early planning stages (in millions):

| Project | Estimated Budget |
|--|------------------|
| New Residence Hall #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 |
| Steam Plant Tunnel Structure & Cooling tower | 6.6 |

Debt and Financing Activities

As of June 30, 2022, the University had outstanding \$309.7 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to \$310.0 million as of June 30, 2021. The \$0.3 million decrease represents the net of paid principal of long term debts offset by new contractual financing obligations entered into during the current fiscal year.

Economic Factors That May Affect the Future

COVID-19's lingering effects continue to impact global markets, supply chains, labor markets, businesses and communities. Specific to the higher education sector, a resurgence of COVID-19 could impact various parts of its 2022-2023 operations and financial results, including, but not limited to, declines in enrollment, loss of revenues, additional bad debts, cost for increased use of technology, or potential shortages of personnel. However, the University of Louisville has attempted to aggressively incorporate contingencies and mitigating strategies as part of the FY 2023 budgeting and operational plans and feels it is prepared to address these potential challenges, especially given the positive trends in its financial position over the past several years. The FY2023 budget can be found online at: <https://louisville.edu/finance/budget/opuds/2223/2223>

State support in recent years has greatly improved compared to prior periods and includes increases in both operating funds and a significant contributions to address deferred maintenance (approximately \$80 million) along with funding for a new engineering academic building (\$65 million). These funds have allowed the university to reduce reliance on tuition increases, thereby reducing cost and financial pressures on its students.

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Because approximately one-fourth of the University's revenues are derived from tuition, fees, housing and dining revenues, enrollment is a focus and the top financial risk. While this risk exposure is prevalent to all universities and colleges, the University is actively engaged in activities to address the demographic enrollment cliff and ensure steady, and possibly improved, future enrollment streams. This include:

- a. Created a Demographic 25 Steering Committee to formulate ways to mitigate the expected drop in enrollment eligible graduates.
- b. Expanding recruitment efforts to out-of-state markets.
- c. Establishing new student financial aid programs.
- d. Partnering with employers to connect offered academic programs to needed credentials and training for their employees and their dependents

Focusing on retention efforts at all levels- including within the colleges

The university is also in the final phases of completing its 2023-2025 strategic plan, addressing how the university ensures student success, creating and supporting a thriving workforce and how the university connects with the community. The university designs its planning and budgeting to support the strategic plan but retains flexibility to meet possible future plan changes. From increasing available student aid to providing an array of compensation improvements to faculty and staff and investing millions of dollars to improve the university's physical and operational infrastructure.

Requests for Information

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Controller, University of Louisville, Louisville, KY 40292.

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
As of June 30, 2022 and 2021
(in thousands)

| | University of Louisville | | Discretely Presented Component Units | |
|--|--------------------------|--------------------|---|------------------|
| | 2022 | 2021 (Restated) | 2022 | 2021 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 220,996 | \$ 206,674 | \$ 216,929 | \$ 194,489 |
| Short-term investments | 47,809 | 7,853 | 335,991 | 176,356 |
| Deposit with bond trustee and escrow agent | 33 | 776 | — | — |
| Loans, accounts and contributions receivable, net | 113,344 | 116,130 | 338,654 | 365,519 |
| Due from affiliates | 36,880 | 53,027 | 18,619 | 15,441 |
| Inventories | 5,627 | 6,278 | 54,120 | 47,004 |
| Investments held with University of Louisville Foundation, Inc. | 3,400 | 3,410 | — | — |
| Other assets | 8,547 | 9,655 | 158,183 | 60,685 |
| Total current assets | 436,636 | 403,803 | 1,122,496 | 859,494 |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | 26,970 | 55,964 | — | — |
| Deposit with bond trustee and escrow agent | 14,946 | 14,607 | — | — |
| Loans, accounts and contributions receivable, net | 712,437 | 722,855 | 4,926 | 14,706 |
| Due from affiliates | 25,625 | 12,423 | — | — |
| Other long-term investments | 46,865 | 26,812 | 987,448 | 1,018,605 |
| Right-of-use asset, net | 61,435 | 64,029 | — | — |
| Other long-term assets | 1,678 | 1,701 | 743,082 | 112,573 |
| Capital assets, net | 1,065,748 | 1,069,819 | 492,974 | 463,731 |
| Total noncurrent assets | 1,955,704 | 1,968,210 | 2,228,430 | 1,609,615 |
| Total assets | 2,392,340 | 2,372,013 | 3,350,926 | 2,469,109 |
| DEFERRED OUTFLOWS OF RESOURCES | 19,129 | 17,305 | — | — |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | 2,411,469 | 2,389,318 | 3,350,926 | 2,469,109 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 113,260 | 113,810 | 197,127 | 232,728 |
| Line of credit | 9,000 | 9,000 | — | — |
| Unearned compensation and wages payable | 1,120 | 1,537 | 103,930 | 112,445 |
| Advances | 42,019 | 50,894 | 45,012 | 96,280 |
| Due to affiliate | — | — | 39,157 | 35,823 |
| Lease payable | 4,832 | 4,336 | — | — |
| Bonds and notes payable | 27,182 | 21,443 | 5,471 | 5,046 |
| Other Current Liabilities | — | — | 40,305 | — |
| Total current liabilities | 197,413 | 201,020 | 431,002 | 482,322 |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
As of June 30, 2022 and 2021
(in thousands)

| | University of Louisville | | Discretely Presented Component Units | |
|--|--------------------------|---------------------|---|---------------------|
| | 2022 | 2021 (Restated) | 2022 | 2021 |
| Noncurrent liabilities | | | | |
| Note payable to University of Louisville Foundation, Inc. | 1,000 | 1,000 | — | — |
| Unearned compensation and wages payable | 2,144 | 949 | — | — |
| Deposits | 1,769 | 1,142 | — | — |
| Advances | 5,945 | 6,542 | — | — |
| Amounts due to federal government for student loan programs | 16,335 | 17,311 | — | — |
| Due to affiliate | — | — | 36,870 | 47,030 |
| Other post-retirement benefits | 85,940 | 80,238 | — | — |
| Other long-term liabilities | 2,045 | 5,045 | 16,507 | 54,011 |
| Lease payable | 56,992 | 59,133 | — | — |
| Bonds and notes payable | 282,493 | 288,547 | 1,038,818 | 131,481 |
| Total noncurrent liabilities | 454,663 | 459,907 | 1,092,195 | 232,522 |
| Total liabilities | 652,076 | 660,927 | 1,523,197 | 714,844 |
| DEFERRED INFLOWS OF RESOURCES | 719,905 | 742,119 | — | — |
| NET POSITION | | | | |
| Net investment in capital assets | 792,372 | 800,249 | — | — |
| Restricted: | | | | |
| Nonexpendable | 1,831 | 1,868 | 636,969 | 650,132 |
| Expendable | 75,293 | 73,377 | 288,012 | 324,889 |
| Unrestricted | 169,992 | 110,778 | 902,748 | 779,244 |
| Total net position | 1,039,488 | 986,272 | 1,827,729 | 1,754,265 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | \$ 2,411,469 | \$ 2,389,318 | \$ 3,350,926 | \$ 2,469,109 |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021
(in thousands)

| | University of Louisville | | Discretely Presented Component Units | |
|---|--------------------------|--------------------|---|------------------|
| | 2022 | 2021 (Restated) | 2022 | 2021 |
| OPERATING REVENUES | | | | |
| Gross tuition and fees | \$ 335,805 | \$ 333,392 | \$ — | \$ — |
| Less: scholarship allowance | (95,745) | (101,887) | | |
| Student tuition and fees, net | 240,060 | 231,505 | | |
| Clinical services and practice plan | 404,628 | 388,069 | — | — |
| Patient service revenue | — | — | 2,023,518 | 1,719,742 |
| Federal grants and contracts | 97,217 | 82,197 | — | — |
| State and local grants and contracts | 16,370 | 9,169 | — | — |
| Nongovernmental grants and contracts | 18,436 | 16,052 | — | — |
| Sales and services of educational departments | 1,884 | 1,629 | — | — |
| Facilities and administrative cost recoveries | 38,714 | 32,434 | — | — |
| Auxiliary enterprises, net of discount of \$2,190 in 2022 and \$2,169 in 2021 | 16,961 | 13,493 | — | — |
| Intercollegiate athletics | 96,940 | 62,384 | — | — |
| Other operating revenue | 16,322 | 13,251 | 208,718 | 245,460 |
| Total operating revenue | 947,532 | 850,183 | 2,232,236 | 1,965,202 |
| OPERATING EXPENSES | | | | |
| Instruction | 260,430 | 241,422 | — | — |
| Research | 158,936 | 151,233 | — | — |
| Public service | 172,005 | 147,573 | — | — |
| Academic support | 169,431 | 165,474 | — | — |
| Student services | 35,894 | 30,187 | — | — |
| Institutional support | 90,985 | 79,059 | 2,028,753 | 1,804,958 |
| Operation and maintenance of plant | 64,502 | 52,147 | — | — |
| Scholarships and fellowships | 58,654 | 35,920 | — | — |
| Auxiliary enterprises | 8,400 | 7,266 | — | — |
| Intercollegiate athletics | 121,536 | 84,272 | — | — |
| Depreciation and amortization | 61,983 | 63,128 | 55,766 | 47,723 |
| Contributions to affiliates | — | — | 56,161 | 49,903 |
| Total operating expense | 1,202,756 | 1,057,681 | 2,140,680 | 1,902,584 |
| Operating (loss) revenue | (255,224) | (207,498) | 91,556 | 62,618 |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2022 and 2021
(in thousands)

| | University of Louisville | | Discretely Presented Component Units | |
|---|--------------------------|--------------------|---|---------------------|
| | 2022 | 2021 (Restated) | 2022 | 2021 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 131,725 | 125,420 | — | — |
| Gifts and donations | 33,220 | 21,322 | 50,310 | 38,636 |
| Nonexchange grants and contracts | 84,180 | 76,083 | — | — |
| Contributions from University of Louisville Foundation, Inc. | 44,481 | 42,412 | — | — |
| Investment income | 941 | 1,159 | (32,792) | 256,231 |
| Realized and unrealized gain on investments | (1,436) | 908 | — | — |
| Interest expense | (11,060) | (13,234) | — | — |
| Other nonoperating revenue (expense) | 16,591 | 15,352 | (35,610) | (29,599) |
| Net nonoperating revenue | 298,642 | 269,422 | (18,092) | 265,268 |
| Income after other revenue, expense, gains and losses | 43,418 | 61,924 | 73,464 | 327,886 |
| Capital appropriations | 169 | 120 | — | — |
| Capital gifts | 9,629 | 8,782 | — | — |
| Total other revenue | 9,798 | 8,902 | — | — |
| Increase in net position | 53,216 | 70,826 | 73,464 | 327,886 |
| NET POSITION | | | | |
| Net position - beginning of year | 986,272 | 915,446 | 1,754,265 | 1,426,379 |
| Net position - end of year | \$ 1,039,488 | \$ 986,272 | \$ 1,827,729 | \$ 1,754,265 |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 (Restated) |
|--|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 242,031 | \$ 226,395 |
| Clinical services and practice plan | 389,095 | 377,123 |
| Grants and contracts | 134,296 | 82,642 |
| Sales and services of educational departments | 1,884 | 1,629 |
| Payments to suppliers, vendors and contractors | (349,646) | (274,643) |
| Payments for utilities | (23,223) | (21,803) |
| Payments to employees | (555,038) | (523,106) |
| Payments for benefits | (148,212) | (114,243) |
| Payments for scholarships and fellowships | (62,758) | (39,623) |
| Loans issued to students | (4,902) | 1,975 |
| Auxiliary enterprises | 14,428 | 11,422 |
| Facilities and administrative cost recoveries | 38,714 | 32,434 |
| Intercollegiate athletics | 92,599 | 65,199 |
| Other receipts | 10,158 | 13,293 |
| Net cash used by operating activities | (220,574) | (161,306) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 131,725 | 125,420 |
| Gifts | 32,392 | 23,778 |
| Nonexchange grants and contracts | 84,180 | 76,083 |
| Contributions from related entities | 44,898 | 41,408 |
| Due from affiliates | 3,608 | (9,606) |
| Draw on line of credit | — | 9,000 |
| Other noncapital financing activities | 16,590 | 1,385 |
| Net cash provided by noncapital financing activities | 313,393 | 267,468 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital appropriations received | 169 | 120 |
| Capital gifts received | 9,629 | 8,782 |
| Purchases of capital assets | (54,449) | (47,075) |
| Proceeds from issuance of bonds, notes payables, and contracts | 21,363 | 72,110 |
| Payment of issuance costs | — | 2,329 |
| Principal paid on bonds and notes payable | (19,701) | (49,443) |
| Interest paid on bonds, notes payable, and contracts | (12,597) | (13,262) |
| Deposits with bond trustee and escrow agent | (83) | 1,010 |
| Other capital financing | 8,375 | (85) |
| Net cash used by capital and related financing activities | (47,294) | (25,514) |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 (Restated) |
|---|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 968,765 | 23,742 |
| Purchase of investments | (1,030,391) | (35,816) |
| Interest on investments | 1,429 | 2,908 |
| Net cash used by investing activities | (60,197) | (9,166) |
| Net increase/(decrease) in cash and cash equivalents | (14,672) | 71,482 |
| Cash and cash equivalents - beginning of year | 262,638 | 191,156 |
| Cash and cash equivalents - end of year | \$ 247,966 | \$ 262,638 |
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING | | |
| Operating loss | \$ (255,224) | \$ (207,498) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization | 61,983 | 63,128 |
| Loss on equipment disposals | 1,737 | (55) |
| Change in assets and liabilities: | | |
| Loans, accounts and contributions receivable | 4,828 | (30,148) |
| Inventories | 651 | (833) |
| Other assets | 1,131 | (1,613) |
| Other long-term assets | 193 | 199 |
| Accounts payable and accrued liabilities | (3,419) | 21,720 |
| Advances | (8,997) | 136 |
| Deposits | 627 | 81 |
| Due from Affiliates | (1,081) | 287 |
| Unearned compensation and wages payable | 778 | (2,762) |
| Other long-term liabilities | 1,056 | 4,999 |
| Deferred outflows of resources | (2,623) | (4,598) |
| Deferred inflows of resources | (22,214) | (4,349) |
| Net cash used by operating activities | \$ (220,574) | \$ (161,306) |
| NON CASH TRANSACTIONS: | | |
| Accrued liabilities for capital asset additions | \$ 2,236 | \$ 3,486 |
| Gifts of capital assets | \$ 353 | \$ 409 |
| Loss on disposal of assets | \$ 1,737 | \$ (55) |
| Amortization of bond premium and discount | \$ (1,976) | \$ (3,436) |

See notes to financial statements

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

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.

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.

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Notes to Financial Statements
For the Years Ended June 30, 2022 and 2021

UL Health is 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.

c. Deposits With Bond Trustee and Escrow Agent

Short term deposits with bond trustee and escrow agents were \$33 thousand and \$0.8 million as of June 30, 2022 and June 30, 2021, respectively. These deposits are invested in money market funds and are related to contract arrangements. Long term deposits with bond trustee and escrow agent were \$14.9 million and \$14.6 million as of June 30, 2022 and June 30, 2021, respectively. These deposits are invested in governmental securities and repurchase agreements and are related to various bonds and contract arrangements. Investments in governmental securities are stated at market value. Repurchase agreements are stated at cost.

d. Accounts and Contributions Receivable

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, charges for clinical services, and future receipts for leasing arrangements. 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.

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.

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.

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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, 2022 and 2021.

g. Inventories

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

h. Capital Assets

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

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

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 \$19.1 million and \$17.3 million for the years ended June 30, 2022 and 2021, 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 \$2.6 million and \$3.4 million for the years ended June 30, 2022 and 2021 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 \$16.6 million and \$13.9 million for the years ended June 30, 2022 and 2021 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 \$719.9 million and \$742.1 million for the years ended June 30, 2022 and 2021, respectively, consist primarily of gain on bond refinancing of \$0.7 million, and \$1.0 million respectively. Postemployment benefit experience and assumptions changes of \$21.2 million and \$25.2 million, respectively, future revenues from leasing arrangements of \$32.6 million and 35.2 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, 2022, include \$32.6 million of deferred inflows of resources, \$12.8 million of long-term receivables and \$14.0 million of net capital assets recorded. 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. Under the agreements, the University maintains ownership of the facilities, while the third parties will manage and operate the food service, bookstore, and copy center operations. There is no on-going liability to the University. The University's objectives for entering the agreements include improving the infrastructure surrounding these operations as well as to improve experience for customers.

o. 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.

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- 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, 2022 and 2021 (in thousands):

| | 2022 | 2021 (Restated) |
|----------------------------------|---------------------|--------------------|
| Net investment in capital assets | \$ 792,372 | \$ 800,249 |
| Restricted - Nonexpendable | | |
| Scholarships and fellowships | 1,831 | 1,868 |
| Restricted - Expendable | | |
| Scholarships and fellowships | 1,568 | 1,542 |
| Research | 21,103 | 14,304 |
| Instruction | 7,024 | 7,479 |
| Public service | 10,103 | 4,397 |
| Academic support | 305 | 180 |
| Institutional support | 15,186 | 10,003 |
| Loans | 2,787 | 2,908 |
| Capital projects | 2,232 | 10,847 |
| Debt service | 14,985 | 21,717 |
| Unrestricted | 169,992 | 110,778 |
| Total net position | \$ 1,039,488 | \$ 986,272 |

p. Revenue and Expense Classifications

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

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

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

q. Student Tuition and Fees

Student tuition and fees are presented net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and third parties making payments on the behalf of students. To the extent that revenues from such programs are used to satisfy tuition and fees, the University has recorded a scholarship allowance. Stipends and other payments made directly to students are presented as scholarships and fellowships expense.

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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.

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 and Restatement

As of June 30, 2022 the following GASB Statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-of-use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The University adopted the requirements of the guidance effective July 1, 2020 and has retroactively applied the provisions of this standard to the beginning of the period prior of adoption.

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The Statement of Net Position as of June 30, 2021 was restated to reflect the asset, liability, deferred inflows and unrestricted net position balances as stated with the affect of the adoption. Current accounts receivable increased \$11.3 million, noncurrent accounts receivable increased \$675.1 million, accrued interest receivable increased \$1.3 million and deferred inflows of resources increased \$680.6 million in to reflect the affect of recording leases where the University is the landlord. Right-of-use assets of \$64.0 million, current lease payable of \$4.3 million, noncurrent lease payable of \$59.1 million, and accrued interest payable of \$59.1 thousand were established to reflect the affect of recording leases where the University is the tenant. Beginning net position was increased \$6.3 million (between a decrease of \$0.7 million net investment in capital assets and an increase of \$7.0 million) in unrestricted activities for the net effect of activities prior to July 1, 2020.

The following statements will be implemented in future reporting periods:

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.

GASB Statement No. 101, Compensated Absences. The statement updates the recognition and measurement guidance for compensated absences and amends certain previously required disclosures. The University has not yet adopted the standard and is evaluating the impact it may have on its financial statements.

2. Cash on Deposit and Investments

The University invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of net position. The risks related to deposits and investments held by the University are described within this disclosure.

a. Summary of Carrying Values

The value of deposits and investments as of June 30, 2022 and 2021 are as follows (in thousands):

| | 2022 | 2021 |
|--------------|-------------------|-------------------|
| Deposits | \$ 247,999 | \$ 263,414 |
| Investments | 113,020 | 52,682 |
| Total | \$ 361,019 | \$ 316,096 |

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

| | 2022 | 2021 |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 220,996 | \$ 206,674 |
| Short-term investments | 47,809 | 7,853 |
| Deposit with bond trustee - current | 33 | 776 |
| Investments held with University of Louisville Foundation, Inc. | 14,946 | 14,607 |
| Restricted cash and cash equivalents | 26,970 | 55,964 |
| Investments held with University of Louisville Foundation, Inc. | 3,400 | 3,410 |
| Other long-term investments | 46,865 | 26,812 |
| Total | \$ 361,019 | \$ 316,096 |

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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, 2022 and 2021, the University had deposits subject to custodial credit risk as follows (in thousands):

| | 2022 | | |
|--|------------------|-----------------------|---------------------|
| | State Deposits | Overnight Investments | Total |
| Collateralized with securities held by pledging financial institution | \$ — | \$ (140,463) | \$ (140,463) |
| Collateralized with securities held by the Commonwealth in the Commonwealth's name | 27,311 | — | 27,311 |
| Total | \$ 27,311 | \$ (140,463) | \$ (113,152) |

| | 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 |
| Total | \$ 52,312 | \$ 45,445 | \$ 97,757 |

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.

As of June 30, 2022 and 2021, the University had investments subject to interest rate risk as reflected in the following schedules (in thousands):

| | 2022 | | | |
|------------------------------|-------------------|------------------|------------------|------------------|
| | Total | Less than 1 year | 1-5 years | 6-10 years |
| US Agency obligations | 74,465 | 35,016 | 39,449 | — |
| Other government obligations | 19,646 | 12,794 | 6,852 | — |
| Repurchase agreement | 14,946 | — | — | 14,946 |
| Total | \$ 109,057 | \$ 47,810 | \$ 46,301 | \$ 14,946 |

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| | 2021 | | | |
|------------------------------|------------------|------------------|------------------|------------------|
| | Total | Less than 1 year | 1-5 years | 6-10 years |
| 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 | – | – |
| Total | \$ 48,516 | \$ 7,854 | \$ 26,055 | \$ 14,607 |

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. By University policy, commercial paper must be rated the highest (A-1/P-1) by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Banker's acceptances must be issued by a bank having a short-term rating of the underlying bank rated the highest (A-1/P-1). Variable rate demand notes must be backed by an unconditional letter of credit issued by a domestic bank having outstanding commercial paper rated the highest (A-1/P-2) by at least one rating service and by each rating service rating said credit. All commercial paper and banker's acceptances must be issued by domestic entities. The Commonwealth investment pool can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; certificates of deposit, banker's acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized rating agency; shares of mutual funds (up to 10%) and state and local property tax certificates of delinquency secured by interests in real estate.

As of June 30, 2022 and 2021, the University had the following investments exposed to credit risk as reflected in schedules below (in thousands):

| | 2022 | | |
|--|---------------|-----------------|-----------------|
| | Aaa | Not Rated | Total |
| Annuities | \$ 563 | \$ – | \$ 563 |
| Investment held with the University of Louisville Foundation, Inc. | – | 3,400 | 3,400 |
| Total | \$ 563 | \$ 3,400 | \$ 3,963 |

| | 2021 | | |
|--|---------------|-----------------|-----------------|
| | Aaa | Not Rated | Total |
| Annuities | \$ 756 | \$ – | \$ 756 |
| Investment held with the University of Louisville Foundation, Inc. | – | 3,410 | 3,410 |
| Total | \$ 756 | \$ 3,410 | \$ 4,166 |

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, 2022 and 2021, the University has no investments in any one issuer as defined above that represent 5% or more of total investments.

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The asset allocation for investments held with the Foundation as of June 30, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|----------------------------|--------------|--------------|
| Investment in partnerships | 54 % | 50 % |
| Marketable alternatives | 10 % | 15 % |
| Mutual funds | 21 % | 19 % |
| Fixed income | 11 % | 10 % |
| Preferred and common stock | 4 % | 6 % |
| Total | 100 % | 100 % |

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

f. Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2022 and 2021.

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 US 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 US Treasury obligations as Level 1 investments.

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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.

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, 2022 and 2021 (in thousands):

| | 2022 | | | | |
|--|------------------|---|---|--|--------------------|
| | 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 | 74,465 | 74,465 | — | — | — |
| Other governmental obligations | 19,646 | — | 19,646 | — | — |
| University of Louisville Foundation, Inc. investment fund | 3,400 | — | — | — | 3,400 |
| Total investments measured at fair value | \$ 97,511 | \$ 74,465 | \$ 19,646 | \$ — | \$ 3,400 |

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| | 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 |
| Total investments measured at fair value | \$ 37,319 | \$ 21,927 | \$ 11,982 | \$ – | \$ 3,410 |

Investments held by the University measured at NAV (in thousands) as of June 30, 2022 and 2021 (in thousands):

| | 2022 | | |
|---|------------|---|------------------------------|
| | Fair Value | Redemption Frequency | Redemption Notice Period |
| University of Louisville Foundation, Inc. investment fund | \$ 3,400 | Various from any valuation day to quarterly | Various from 5 to 90 days |

| | 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 |

The table below presents the fair value measurements of assets and liabilities held by the discretely presented component units as of June 30, 2022 and 2021 (in thousands):

| | 2022 | | | | |
|---|---------------------|---|---|--|--------------------|
| | 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 | \$ 101,303 | \$ 38,385 | \$ 62,918 | – | – |
| Mutual funds | 195,579 | 195,579 | – | – | – |
| Domestic marketable equity securities | 34,748 | 34,748 | – | – | – |
| Mortgage bonds | 27,663 | – | 27,663 | – | – |
| Asset backed bonds | 9,933 | – | 9,933 | – | – |
| Corporate bonds | 91,028 | – | 91,028 | – | – |
| Funds held in trust by others | 63,360 | – | 63,360 | – | – |
| Hedge funds | 87,449 | – | – | – | 87,449 |
| Investments in partnerships | 478,467 | – | – | – | 478,467 |
| Total investments measured at fair value | \$ 1,089,530 | \$ 268,712 | \$ 254,902 | \$ – | \$ 565,916 |

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| | 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 | \$ — | \$ — | \$ — |
| 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 |
| Total investments measured at fair value | \$ 863,231 | \$ 184,691 | \$ 89,499 | \$ — | \$ 589,041 |

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held by the discretely presented component units at June 30, 2022 and 2021 are presented below (in thousands):

| | 2022 | | | |
|-----------------------------|------------|-------------------------|-------------------------------------|--------------------------------|
| | 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 days |

| | 2021 | | | |
|-----------------------------|------------|-------------------------|-------------------------------------|--------------------------------|
| | 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 days |

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4. Loans, Accounts, and Contributions Receivable, Net

Loans, accounts, and contributions receivable, net as of June 30, 2022 and 2021 (in thousands):

| | 2022 | | |
|--------------------------|---------------------|--------------------|-------------------|
| | Gross Receivable | Allowance | Net Receivable |
| Student tuition and fees | \$ 56,110 | \$ (26,914) | \$ 29,196 |
| Patient care | 43,406 | (18,425) | 24,981 |
| Contributions receivable | 34,055 | (5,109) | 28,946 |
| Sponsored agreements | 37,245 | (1,763) | 35,482 |
| Trade receivables | 15,354 | — | 15,354 |
| Rent receivables | 677,983 | — | 677,983 |
| Other | 14,755 | — | 14,755 |
| Total | \$ 878,908 | \$ (52,211) | \$ 826,697 |
| Less discount | | | (916) |
| Total Receivables | | | \$ 825,781 |
| Current portion | | | 113,344 |
| Noncurrent portion | | | 712,437 |

| | 2021 (Restated) | | |
|--------------------------|---------------------|--------------------|-------------------|
| | 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 |
| Rent receivables | 686,359 | — | 686,359 |
| Other | 16,566 | — | 16,566 |
| Total | \$ 895,355 | \$ (55,467) | \$ 839,888 |
| Less discount | | | (903) |
| Total Receivables | | | \$ 838,985 |
| Current portion | | | 116,130 |
| Noncurrent portion | | | 722,855 |

Contributions receivable consist primarily of charitable gifts totaling \$34.1 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, 2022.

Rent receivables are future payments due from tenants leasing the university's equipment or real estate, slated at their present value. Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2022 and June 30, 2021.

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Contributions receivable as of June 30, 2022 and 2021 are due to be received as follows (in thousands):

| | 2022 | 2021 |
|---|------------------|------------------|
| Less than one year | \$ 10,195 | \$ 10,893 |
| One to three years | 8,923 | 10,009 |
| Greater than three years | 13,937 | 14,080 |
| Total gross contributions receivable | 33,055 | 34,982 |
| Less discount | (916) | (903) |
| Less allowance | (5,109) | (6,408) |
| Net contributions receivable | \$ 27,030 | \$ 27,671 |

The University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

5. Due From Affiliates

a. University of Louisville Foundation, Inc.

The Foundation receives, invests, manages and administers private gifts, bequests and endowments donated for the benefit of the University. The Foundation acts in a fiduciary capacity, distributing the donated and earned funds as required by the terms of the gifts and consistent with the donor's intent. The Foundation owed \$4.8 million and \$5.2 million to the University as of June 30, 2022 and 2021, 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.

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, 2022 and 2021. 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, 2022, \$1.1 million in rents were earned and included in current due from affiliates.

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, 2022 and 2021, respectively. The outstanding note balance is \$2.4 million as of June 30, 2022 with \$0.8 million in current due from affiliate and the remaining \$1.6 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, 2022 receivables of \$12 thousand and \$0.1 million, respectively were due.

d. University Medical Center, Inc. (UMC)

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, 2022 and 2021, receivables of \$0 million and \$5.2 million were due, respectively.

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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 \$23.0 million and \$33.2 million for the years ended June 30, 2022 and 2021, payables to the Research Foundation over three years. During fiscal year 2022, the Research Foundation received payments of \$10.6 million related to the agreement with UL Health. As of June 30, 2022, the remaining balance due to the Research Foundation is \$54.2 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, 2022 and 2021, receivables of \$8.4 million and \$3.6 million were due, respectively.

6. Capital and Intangible Assets, Net

Capital assets and intangible assets as of June 30, 2022 and 2021 are as follows (in thousands):

| | 2022 | | | | |
|--|---------------------|-------------------|-------------------|-----------------|---------------------|
| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
| Cost - Nondepreciable | | | | | |
| Land | \$ 58,425 | \$ — | \$ — | | \$ 58,425 |
| Rare books | 48,468 | 28 | — | | 48,496 |
| Construction in progress | 37,752 | 40,304 | — | (37,950) | 40,106 |
| Subtotal | 144,645 | 40,332 | — | (37,950) | 147,027 |
| Cost - Depreciable | | | | | |
| Buildings | 1,501,606 | 2,233 | (9,261) | 37,950 | 1,532,528 |
| Infrastructure | 53,907 | 71 | — | | 53,978 |
| Land improvements | 21,471 | — | (161) | | 21,310 |
| Equipment | 235,521 | 10,491 | (1,062) | | 244,950 |
| Leasehold improvements | 2,117 | — | — | | 2,117 |
| Library materials | 177,375 | 1,074 | — | | 178,449 |
| Right-of-use asset | 69,538 | 3,023 | — | | 72,561 |
| Subtotal | 2,061,535 | 16,892 | (10,484) | 37,950 | 2,105,893 |
| Total capital and intangible assets, cost | 2,206,180 | 57,224 | (10,484) | — | 2,252,920 |
| Accumulated depreciation and amortization | | | | | |
| Buildings | 678,554 | 41,204 | (7,599) | | 712,159 |
| Infrastructure | 7,489 | 901 | — | | 8,390 |
| Land improvements | 6,446 | 603 | — | | 7,049 |
| Equipment | 205,158 | 11,157 | (979) | | 215,336 |
| Leasehold improvements | 1,816 | 64 | — | | 1,880 |
| Library materials | 167,360 | 2,436 | — | | 169,796 |
| Right-of-use asset | 5,509 | 5,618 | — | | 11,127 |
| Total accumulated depreciation and amortization | 1,072,332 | 61,983 | (8,578) | — | 1,125,737 |
| Capital and intangible assets, net | \$ 1,133,848 | \$ (4,759) | \$ (1,906) | \$ — | \$ 1,127,183 |

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| | 2021 (Restated) | | | | |
|--|---------------------|-------------------|----------------|----------------|---------------------|
| | Beginning Balance | Additions | Retirements | Transfers | Ending Balance |
| Cost - Nondepreciable | | | | | |
| Land | \$ 58,425 | \$ — | \$ — | \$ — | \$ 58,425 |
| Rare books | 48,382 | 86 | — | — | 48,468 |
| Construction in progress | 5,233 | 34,993 | — | (2,474) | 37,752 |
| Subtotal | 112,040 | 35,079 | — | (2,474) | 144,645 |
| Cost - Depreciable | | | | | |
| 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 |
| Right-of-use asset | 69,538 | — | — | — | 69,538 |
| Subtotal | 2,047,706 | 14,371 | (3,016) | 2,474 | 2,061,535 |
| Total capital and intangible assets, cost | 2,159,746 | 49,450 | (3,016) | — | 2,206,180 |
| Accumulated depreciation and amortization | | | | | |
| 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 |
| Right to use asset | 5,509 | — | — | — | 5,509 |
| Total accumulated depreciation and amortization | 1,017,542 | 57,780 | (2,990) | — | 1,072,332 |
| Capital and intangible assets, net | \$ 1,142,204 | \$ (8,330) | \$ (26) | \$ — | \$ 1,133,848 |

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2022 and 2021 (in thousands):

| | 2022 | 2021 (Restated) |
|-----------------------|-------------------|-------------------|
| Salaries and benefits | \$ 37,913 | \$ 37,319 |
| Payroll taxes | 26,269 | 36,265 |
| Construction | 4,046 | 3,486 |
| Accrued interest | 4,662 | 5,022 |
| Other | 40,370 | 31,718 |
| Total | \$ 113,260 | \$ 113,810 |

Accrued interest includes \$1.3 million relate to leases payable as of June 30, 2022 and 2021.

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8. 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, 2022 with a maturity date of June 30, 2023 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%. There were no draws on the line of credit during the year ending June 30, 2022. The balance of the line of credit is \$9.0 million as of June 30, 2022.

9. Leases

a. Lessee Arrangements

The University leases operating and office facilities for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2067 and provide for renewal options ranging from one year to fifty years. The University records right-of-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the University's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. Those variable payments are recognized as outflows of resources in the periods in which the obligation for those payments is incurred. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. The Association does not have any leases subject to a residual value guarantee.

Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

| | Net asset balance as of June 30, 2022 | |
|--------------|---|---------------|
| Building | \$ | 60,803 |
| Land | | 632 |
| Total | \$ | 61,435 |

See Note 6, Capital Assets for balances of right-of-use assets and associated accumulated amortization. See Note 12 Other Liabilities for balances of lease liabilities.

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The University's total future minimum lease payments to be made under lease agreements are as follows (in thousands), subject to change with new leases:

| For the year ending June 30, | Principal | Interest |
|--------------------------------------|------------------|------------------|
| 2023 | \$ 4,832 | \$ 1,734 |
| 2024 | 4,307 | 1,612 |
| 2025 | 2,736 | 1,510 |
| 2026 | 2,782 | 1,429 |
| 2027 | 2,455 | 1,352 |
| 2028-2032 | 12,079 | 5,690 |
| 2033-2037 | 12,038 | 3,870 |
| 2038-2042 | 12,770 | 1,985 |
| 2043-2047 | 7,608 | 264 |
| 2048-2052 | 43 | 31 |
| 2053-2057 | 50 | 24 |
| 2058-2062 | 58 | 16 |
| 2063-2067 | 67 | 6 |
| Future minimum lease payments | \$ 61,824 | \$ 19,525 |

The University leases operating and office facilities from an affiliated party, and a related right-to-use lease asset and liability have been recorded. The leases provide for minimum annual lease payments totaling \$1.3 million expiring at various times through 2038, plus variable payments based on usage.

b. Lessor Arrangements

The University leases operating, office space and hospitals to external parties. The University records lease receivables as deferred inflows of resources based on the present value of expected receipts over the term of the respective leases. The expected receipts are discounted using the interest rate charged on the lease or the Research Foundation's incremental borrowing rate. Variable payments are excluded from the valuations unless they are fixed in substance. During the years ended June 30, 2022 and 2021, the University recognized revenues relating to these lease arrangements totaling \$28.2 million and \$27.6 million, respectively. Of those receipts, \$26.7 million was received from a related party during each respective year.

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10. Bonds, Notes, and Contracts

Long-term debt, net of discount, of the University consisted of the following at June 30, 2022 and 2021 (in thousands):

| | Interest Rate | Fiscal Year of Maturity | 2022 | 2021 |
|-----------------------------|---------------|-------------------------|-------------------|-------------------|
| 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 |
| Series A of 2012 | 5.0% | 2023 | 1,635 | 3,190 |
| Series A of 2016 | 2.0% to 5.0% | 2036 | 9,435 | 10,275 |
| Series B of 2016 | 3.0% to 5.0% | 2028 | 15,025 | 17,270 |
| Series C of 2016 | 2.0% to 4.0% | 2029 | 38,370 | 43,050 |
| Series D of 2016 | 3.0% to 5.0% | 2036 | 45,295 | 45,295 |
| Series E of 2016 | 2.2% to 3.0% | 2023 | 1,055 | 2,185 |
| Series F of 2016 | 5.0% | 2028 | 15,540 | 17,715 |
| Series A of 2020 | 2.0% to 5.0% | 2051 | 45,320 | 45,320 |
| Series A of 2021 | 1.5% | 2032 | 20,980 | 21,400 |
| Series B of 2021 | 2.0% to 5.0% | 2051 | 39,300 | 39,450 |
| Notes from direct placement | 2.9% | 2043 | 14,855 | 11,000 |
| Contracts | 1.8% to 10.7% | 2021 to 2033 | 30,551 | 17,986 |
| Total long-term debt | | | 298,303 | 296,643 |
| Net unamortized premium | | | 11,372 | 13,347 |
| Long-term debt, net | | | \$ 309,675 | \$ 309,990 |

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

| | 2022 | | | | | |
|---------------------------------------|-------------------|------------------|--------------------|-------------------|------------------|--------------------|
| | Beginning Balance | Additions | Retirements | Ending Balance | Current Portion | Noncurrent Portion |
| Bonds payable | \$ 267,657 | \$ — | \$ (14,760) | \$ 252,897 | \$ 17,025 | \$ 235,872 |
| Notes from direct placement | 11,000 | 4,979 | (1,124) | 14,855 | 465 | 14,390 |
| Contracts | 17,986 | 16,383 | (3,817) | 30,552 | 7,930 | 22,622 |
| Total | 296,643 | 21,362 | (19,701) | 298,304 | 25,420 | 272,884 |
| Less amortized net (discount)/premium | 13,347 | — | (1,976) | 11,371 | 1,762 | 9,609 |
| Net long-term debt | \$ 309,990 | \$ 21,362 | \$ (21,677) | \$ 309,675 | \$ 27,182 | \$ 282,493 |

| | 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 |
| Contracts | 27,543 | 260 | (9,817) | 17,986 | 4,282 | 13,704 |
| Total | 273,976 | 72,110 | (49,443) | 296,643 | 19,672 | 276,971 |
| Less amortized net (discount)/premium | 14,329 | 2,454 | (3,436) | 13,347 | 1,771 | 11,576 |
| Net long-term debt | \$ 288,305 | \$ 74,564 | \$ (52,879) | \$ 309,990 | \$ 21,443 | \$ 288,547 |

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

| | Bonds Payable | | Notes from Direct Placement | | Contracts Payable | |
|--------------|-------------------|------------------|-----------------------------|-----------------|-------------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2023 | \$ 17,025 | \$ 9,290 | \$ 465 | \$ 274 | \$ 7,930 | 888 |
| 2024 | 16,460 | 8,664 | 1,382 | 443 | 5,000 | 586 |
| 2025 | 16,060 | 8,057 | 1,032 | 400 | 3,578 | 459 |
| 2026 | 16,410 | 7,423 | 782 | 369 | 3,385 | 366 |
| 2027 | 17,080 | 6,761 | 775 | 342 | 2,920 | 277 |
| 2028-2032 | 81,507 | 19,924 | 10,419 | 1,050 | 7,329 | 420 |
| 2033-2037 | 38,390 | 9,958 | — | — | 409 | 11 |
| 2038-2042 | 15,815 | 5,499 | — | — | — | — |
| 2043-2047 | 17,960 | 3,351 | — | — | — | — |
| 2048-2052 | 16,190 | 872 | — | — | — | — |
| Total | \$ 252,897 | \$ 79,798 | \$ 14,855 | \$ 2,878 | \$ 30,551 | \$ 3,007 |

The University has capitalized leased equipment with a net book value of \$3.1 million as of June 30, 2022 and 2021,

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 \$332.7 million, with annual requirements ranging from \$4.3 million in 2037 to \$42.0 million in 2028.

As of June 30, 2022 and 2021, investments at fair value totaling approximately \$15.0 million and \$15.4 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.

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University of Louisville General Receipts Bonds, 2012 Series A

In June 2012, the University issued \$14.6 million of University of Louisville, General Receipts Bonds, 2012 Series A at a total interest cost of 2.1%. The bonds were issued to advance refund \$13.5 million of Consolidated Educational Buildings Revenue Bonds Series N (Series N) with a weighted average interest rate of 3.9% and \$5.3 million of Consolidated Educational Buildings Revenue Bonds Series O (Series O) with a weighted average interest rate of 4.1% (combined, the prior bonds). Final maturity on the 2012 Bonds is March 1, 2023.

University of Louisville General Receipts Bonds, 2016 Series A

In April 2016, the University issued \$14.1 million of University of Louisville, General Receipts Bonds, 2016 Series A at a total interest cost of 2.8%. The bonds were issued to fund the University's share of the cost of the renovation and expansion of the University of Louisville Student Activity Center and to currently refund \$3.2 million of University of Louisville General Receipts Bonds, Taxable Build America Bonds, 2010 Series A with a weighted average interest rate of 3.7% and \$2.6 million of Consolidated Educational Buildings Revenue Bonds Series P with a weighted average interest rate of 3.9% (combined, the prior bonds). Final maturity on the 2016 Series A Bonds is March 1, 2036.

University of Louisville General Receipts Bonds, 2016 Series B

In April 2016, the University issued \$23.7 million of University of Louisville, General Receipts Bonds, 2016 Series B at a total interest cost of 2.2%. The bonds were issued to advance refund \$24.6 million of University of Louisville General Receipts Bonds, 2007 Series A with a weighted average interest rate of 4.0%. The bond proceeds together with an issuance premium of \$2.4 million have been used to retire the General Receipts Bonds 2007 Series A. Final maturity on the 2016 Series B bonds is September 1, 2027.

University of Louisville General Receipts Bonds, 2016 Series C

In April 2016, the University issued \$51.7 million of University of Louisville, General Receipts Bonds, 2016 Series C at a total interest cost of 2.5%. The bonds were issued to advance refund \$52.0 million of University of Louisville General Receipts Bonds, 2008 Series A with a weighted average interest rate of 4.5%. The bond proceeds together with an issuance premium of \$6.4 million have been used to retire General Receipts Bonds 2008 Series A. Final maturity on the 2016 Series C Bonds is September 1, 2028.

University of Louisville General Receipts Bonds, 2016 Series D and Taxable General Receipts Bonds, 2016 Series E

In December 2016, the University issued \$45.3 million of University of Louisville, General Receipts Bonds, 2016 Series D at a total interest cost of 3.8% and \$5.4 million of University of Louisville, Taxable General Receipts Bonds, 2016 Series E at a total interest cost of 2.5%. The proceeds of the 2016 Series D Bonds and the 2016 Series E Bonds will be used by the University to finance the expansion of the University's Papa John's Cardinal Stadium. Final maturity on the 2016 Series D and Series E Bonds is March 1, 2036 and March 1, 2023, respectively.

University of Louisville General Receipts Bonds, 2016 Series F

In December 2016, the University issued \$27.6 million of University of Louisville, General Receipts Bonds, 2016 Series F at a total interest cost of 2.7%. The bonds were issued to advance refund \$29.5 million of Metro Government Mortgage Revenue Bonds, Series 2008 B with a weighted average interest rate of 4.1%. The bond proceeds together with an issuance premium of \$3.6 million have been used to retire the Metro Government Mortgage Revenue Bonds, Series 2008 B. Final maturity on the 2016 Series F Bonds is March 1, 2028.

University of Louisville General Receipts Bonds, 2020 Series A

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

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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 April 2021, the Association entered into a \$11 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 million as of June 30, 2022.

The Association entered into a financing arrangement with vendors to finance certain fixtures and equipment. The notes are payable over 10 years. The balance of the notes is \$3.9 million as of June 30, 2022.

Contracts

The University enters into financing arrangements with financial institutions or businesses for the purchase of equipment or services. The financing entity receives an exclusive security interest in any and all equipment acquired, built or maintained. The individual agreements specify as events of default failure to remit 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 financing arrangement, covenants not to grant secondary liens on the equipment financed, 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.

11. 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 redemption of a life insurance policy pledged by a certain donor. The outstanding balance was approximately \$1.0 million for each of the years ended June 30, 2022 and 2021.

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12. Other Liabilities

Other liabilities of the University are summarized at June 30, 2022 and 2021 (in thousands):

| | 2022 | | | | | |
|---|-------------------|-------------------|---------------------|-------------------|------------------|--------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion | Noncurrent Portion |
| Unearned compensation and wages payable | 2,486 | 5,387 | (4,609) | 3,264 | 1,120 | 2,144 |
| Deposits | 1,142 | 1,257 | (630) | 1,769 | – | 1,769 |
| Advances | 57,436 | 349,498 | (358,970) | 47,964 | 42,019 | 5,945 |
| Amounts due federal government for student loan program | 17,311 | 2 | (978) | 16,335 | – | 16,335 |
| Leases payable | 63,469 | 2,811 | (4,456) | 61,824 | 4,832 | 56,992 |
| Other long-term liabilities | 5,045 | – | (3,000) | 2,045 | – | 2,045 |
| Total | \$ 146,889 | \$ 358,955 | \$ (372,643) | \$ 133,201 | \$ 47,971 | \$ 85,230 |

| | 2021 (Restated) | | | | | |
|---|-------------------|-------------------|---------------------|-------------------|------------------|--------------------|
| | 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 | 389,615 | (387,023) | 57,436 | 50,894 | 6,542 |
| Amounts due federal government for student loan program | 17,145 | 291 | (125) | 17,311 | – | 17,311 |
| Leases payable | 69,538 | – | (6,069) | 63,469 | 4,336 | 59,133 |
| Other long-term liabilities | 6,130 | – | (1,085) | 5,045 | – | 5,045 |
| Total | \$ 153,966 | \$ 392,629 | \$ (399,706) | \$ 146,889 | \$ 56,767 | \$ 90,122 |

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13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2022 and 2021 (in thousands):

| | 2022 | | | | | |
|------------------------------------|-------------------|-------------------|------------------|------------------------------|--------------------|---------------------|
| | Salary and wages | Employee Benefits | Utilities | Scholarships and fellowships | Supplies and other | Total |
| Instruction | \$ 193,660 | \$ 50,673 | \$ 10 | \$ 1,404 | \$ 14,683 | \$ 260,430 |
| Research | 87,213 | 22,771 | 40 | 1,709 | 47,203 | 158,936 |
| Public service | 52,809 | 13,778 | 47 | 288 | 105,083 | 172,005 |
| Academic support | 83,661 | 20,791 | 137 | 1,022 | 63,820 | 169,431 |
| Student services | 18,451 | 6,325 | 125 | 61 | 10,932 | 35,894 |
| Institutional support | 49,361 | 12,880 | — | (31) | 28,775 | 90,985 |
| Operation and maintenance of plant | 14,603 | 5,230 | 21,416 | 272 | 22,981 | 64,502 |
| Scholarships and fellowships | 4,463 | 982 | — | 52,400 | 809 | 58,654 |
| Auxiliary enterprises | 1,651 | 636 | 664 | (179) | 5,628 | 8,400 |
| Intercollegiate athletics | 45,311 | 8,795 | 958 | 5,812 | 60,660 | 121,536 |
| Depreciation and amortization | — | — | — | — | — | 61,983 |
| Total | \$ 551,183 | \$ 142,861 | \$ 23,397 | \$ 62,758 | \$ 360,574 | \$ 1,202,756 |

| | 2021 (Restated) | | | | | |
|------------------------------------|------------------------|-------------------|------------------|------------------------------|--------------------|---------------------|
| | 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 | — | — | — | — | — | 63,128 |
| Total | \$ 525,613 | \$ 119,396 | \$ 21,987 | \$ 39,623 | \$ 287,934 | \$ 1,057,681 |

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14. 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 2021 to 2022. Settlements have not exceeded insurance coverage during the past three years.

University medical and dental students, residents, and most School of Medicine faculty are insured against medical malpractice by a captive liability insurer. Other faculty, agents, and certain non-physician employees are insured against medical malpractice by commercial insurance. The University also has the benefit of an excess coverage fund established by the Commonwealth of Kentucky.

The University is self-insured for the medical benefits provided to employees. The cost of such self-insured benefits provided during the years ended June 30, 2022 and 2021, respectively, was approximately \$71.3 million and \$68.2 million, including \$5.9 million and \$5.4 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, 2022, June 30, 2021, and June 30, 2020 (in thousands):

| Fiscal year ended June 30, | Beginning Balance | Current Year Claims and Changes in Estimates | Claim Payments | Ending Balance |
|----------------------------|-------------------|---|----------------|----------------|
| 2022 | \$ 5,449 | \$ 71,711 | \$ (71,304) | \$ 5,856 |
| 2021 | \$ 5,287 | \$ 68,376 | \$ (68,214) | \$ 5,449 |
| 2020 | \$ 5,189 | \$ 61,615 | \$ (61,517) | \$ 5,287 |

15. 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, 2022, all of the funding 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.

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16. Retirement Plans

a. Defined Contribution Plan

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

From plan inception through April 30, 2020, eligible employees not contributing to the Retirement Plan were entitled to a 7.5% of base salary contribution on their behalf from the University and an additional match of 2.5% employee contributions. The University amended the Retirement Plan during 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%. The plan was further amended February 1, 2021, the additional contribution was increased to 6.0% to increase the additional contribution to 6% and amended again on July 1, 2021 to 7.5%.

Other information relating to this plan for the years ended June 30, 2022 and 2021 is presented as follows (in thousands):

| | 2022 | 2021 |
|-----------------------------------|------------|------------|
| Total University payroll | \$ 556,154 | \$ 530,287 |
| Total payroll covered by the plan | \$ 528,172 | \$ 514,324 |
| Employee contributions | \$ 33,869 | \$ 31,877 |
| University contributions | \$ 37,628 | \$ 22,134 |

As of June 30, 2022 and 2021, the University had no outstanding liability related to the Retirement Plan and \$193 thousand and \$42 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, 2022 and June 30, 2021. 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, 2022 and 2021 are as follows (in thousands):

| | 2022 | 2021 |
|--|----------|----------|
| Actuarial present value of nonvested accumulated plan benefits | \$ 479 | \$ 558 |
| Net assets available for benefits | \$ 965 | \$ 1,026 |
| Net pension surplus | \$ (486) | \$ (468) |
| Funded ratio | 201 % | 184 % |

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, 2022 and 2021, for preretirement and postretirement periods.

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17. 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, 2022, the following employees were covered by the benefit terms.

| | |
|-----------------------|--------------|
| Inactive plan members | 1,586 |
| Active plan members | 4,701 |
| Total | 6,287 |

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, 2022 and 2021, the University contributed approximately \$3.7 million and \$3.5 million to the Plan, approximately 80% and 78% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$924 thousand and \$956 thousand, approximately 25% and 27% of total premiums for the years ended June 30, 2022 and 2021, respectively. Health plan rates remained unchanged for the year ended June 30, 2022. 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, 2022 and 2021, the University contributed \$2.2 million and \$2.1 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.

| | |
|-----------------------------|--|
| Inflation | 2.25% |
| Salary Increases | 5.00%, average |
| Investment rate of return | NA |
| Healthcare cost trend rates | 6.4% for 2021, decreasing 0.10%-0.25% per year to an ultimate rate of 4.15% for 2034 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 1.92% as of the Measurement Date, 2.45% as of the beginning of the Measurement Period.

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

| | Total OPEB Liability |
|--|-----------------------------|
| Balances at 6/30/2021 | \$ 80,238 |
| Changes for the year: | |
| Service cost | 2,795 |
| Interest | 1,956 |
| Differences between expected and actual experience | (458) |
| Changes of assumptions | 4,967 |
| Benefit payments | (3,558) |
| Net Changes | 5,702 |
| Balances at 6/30/2022 | \$ 85,940 |

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 (0.92)% | Discount Rate (1.92)% | 1% Increase (2.92)% |
|---|--------------------------------|----------------------------------|--------------------------------|
| Sensitivity of OPEB Liability to Changes in Discount Rate | \$ 96,719 | \$ 85,940 | \$ 76,935 |

| | 1% Decrease (5.4)% | Healthcare Cost Trend Rates (6.4)% | 1% Increase (7.4)% |
|--|-------------------------------|---|---------------------------|
| Sensitivity of OPEB Liability to Changes in Medical Trend Rate | \$ 82,316 | \$ 85,940 | \$ 90,197 |

For the year ended June 30, 2022 the University recognized OPEB expense of \$2.7 million. At June 30, 2022, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---------------------------------------|--------------------------------------|
| Differences between expected and actual experience | \$ 1,151 | \$ 3,651 |
| Changes of assumptions | 11,732 | 17,525 |
| Contributions made in fiscal year ending 6/30/2022 after the measurement date of 6/30/2021 | 3,684 | — |
| Total | \$ 16,567 | \$ 21,176 |

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

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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 on the following page:

| Year ended June 30: | | |
|---------------------|-----------|----------------|
| 2023 | \$ | (2,032) |
| 2024 | | (2,032) |
| 2025 | | (2,032) |
| 2026 | | (1,615) |
| 2027 | | (1,515) |
| Thereafter | | 933 |
| Total | \$ | (8,293) |

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 \$85.9 million and \$80.2 million and there were no assets, resulting in an unfunded net OPEB liability of \$85.9 million and \$80.2 million as of June 30, 2022 and 2021, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$434.9 million and \$490.2 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 16%, for the years ended June 30, 2022 and 2021, respectively.

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

e. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 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 2.45% as of the beginning of the reporting year to 1.92% 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, 2021 was due to updates made on expected future health claims and an increase in the discount rate from 2.45% as of the beginning of the reporting year to 1.92% as of the measurement date, and changes in the assumed per capita cost.

18. 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 \$22.3 million and \$33.2 million for the years ended June 30, 2022 and 2021, respectively.

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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, 2022 and 2021, support totaling approximately \$150.1 million and \$113.7 million, respectively, was received under these agreements.

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 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 \$84.5 million and \$74.7 million related academic, departmental and research support for June 30, 2022 and 2021, respectively. Norton made additional payments to the Research Foundation for professional services provided by clinical providers of \$2.3 million and \$3.4 million for the years ending June 30, 2022 and 2021, respectively.

19. Commitments and Contingencies

a. Commitments

At June 30, 2022, the University had approximately \$29.4 million in encumbrances outstanding for future expenditures.

b. Litigation

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

During 1989, the Kentucky Supreme Court ruled that the Board of Claims statute cannot bar lawsuits against employees of the Commonwealth who can be held personally liable for their own negligent acts. Certain of the University's employees have lawsuits pending against them for negligence claims. Any judgments on such claims are not the liability of the University, although the University may settle or pay judgments from the statutory fund established per KRS 156.895 and 164.890 - 164.895, or per liability insurance purchased for its employees and agents.

c. NCAA Investigation

The University received a Notice of Allegation from the NCAA on May 4, 2020 as a result of information obtained during the federal criminal charges against former Adidas representatives, and the subsequent investigation. A number of other university athletic programs with Adidas contracts similarly received a Notice of Allegation from the NCAA. The outcome of the NCAA's allegations against the University and the future impact on the financial position of the Association cannot be estimated at the time of issuance of the audited financial statements.

d. Government Grants

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

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20. 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, 2022 and 2021, are on the following pages (in thousands):

| | 2022 | | | |
|--|---------------------|---------------------|----------------------|---------------------|
| | University | Research Foundation | Athletic Association | Total |
| Current assets | \$ 186,939 | \$ 208,829 | \$ 40,868 | \$ 436,636 |
| Other noncurrent assets | 110,647 | 680,915 | 36,959 | 828,521 |
| Capital assets, net | 820,221 | 56,510 | 250,452 | 1,127,183 |
| Total assets | 1,117,807 | 946,254 | 328,279 | 2,392,340 |
| Deferred outflows of resources | 11,601 | 5,964 | 1,564 | 19,129 |
| Total assets and deferred outflows of resources | 1,129,408 | 952,218 | 329,843 | 2,411,469 |
| Current liabilities | 93,384 | 46,369 | 57,660 | 197,413 |
| Noncurrent liabilities | 253,916 | 38,035 | 162,712 | 454,663 |
| Total liabilities | 347,300 | 84,404 | 220,372 | 652,076 |
| Deferred inflows of resources | 58,958 | 659,534 | 1,413 | 719,905 |
| Net investment in capital assets | 613,648 | 51,519 | 127,205 | 792,372 |
| Restricted-nonexpendable | – | – | 1,831 | 1,831 |
| Restricted-expendable | 43,236 | 24,422 | 7,635 | 75,293 |
| Unrestricted | 66,266 | 132,339 | (28,613) | 169,992 |
| Total net position | 723,150 | 208,280 | 108,058 | 1,039,488 |
| Total liabilities, deferred inflows of resources and net position | \$ 1,129,408 | \$ 952,218 | \$ 329,843 | \$ 2,411,469 |

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| | 2021 (Restated) | | | |
|--|---------------------|------------------------|-------------------------|---------------------|
| | University | Research Foundation | Athletic Association | Total |
| Current assets | \$ 189,418 | \$ 169,702 | \$ 44,683 | \$ 403,803 |
| Other noncurrent assets | 126,525 | 678,488 | 29,349 | 834,362 |
| Capital assets, net | 816,869 | 59,465 | 257,514 | 1,133,848 |
| Total assets | 1,132,812 | 907,655 | 331,546 | 2,372,013 |
| Deferred outflows of resources | 10,282 | 5,438 | 1,585 | 17,305 |
| Total assets and deferred outflows of resources | 1,143,094 | 913,093 | 333,131 | 2,389,318 |
| Current liabilities | 109,308 | 35,203 | 56,509 | 201,020 |
| Noncurrent liabilities | 267,379 | 34,423 | 158,105 | 459,907 |
| Total liabilities | 376,687 | 69,626 | 214,614 | 660,927 |
| Deferred inflows of resources | 61,419 | 678,901 | 1,799 | 742,119 |
| Net investment in capital assets | 615,240 | 54,347 | 130,662 | 800,249 |
| Restricted - nonexpendable | — | — | 1,868 | 1,868 |
| Restricted - expendable | 37,808 | 17,536 | 18,033 | 73,377 |
| Unrestricted | 51,940 | 92,683 | (33,845) | 110,778 |
| Total net position | 704,988 | 164,566 | 116,718 | 986,272 |
| Total liabilities, deferred inflows of resources and net position | \$ 1,143,094 | \$ 913,093 | \$ 333,131 | \$ 2,389,318 |

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| | 2022 | | | |
|---|-------------------|------------------------|-------------------------|---------------------|
| | University | Research Foundation | Athletic Association | Total |
| Student tuition and fees, net | \$ 240,060 | \$ — | \$ — | \$ 240,060 |
| Clinical services and practice plan | 6,530 | 398,098 | — | 404,628 |
| Grants and contracts | — | 132,023 | — | 132,023 |
| Facilities and administrative cost recoveries | 6 | 38,708 | — | 38,714 |
| Other operating revenue | 27,152 | 8,015 | 96,940 | 132,107 |
| Total operating revenues | 273,748 | 576,844 | 96,940 | 947,532 |
| Depreciation | 42,364 | 9,043 | 10,576 | 61,983 |
| Other operating expenses | 463,000 | 546,123 | 131,650 | 1,140,773 |
| Total operating expenses | 505,364 | 555,166 | 142,226 | 1,202,756 |
| Operating gain (loss) | (231,616) | 21,678 | (45,286) | (255,224) |
| State appropriations | 131,725 | — | — | 131,725 |
| Gifts | 693 | 5,488 | 27,039 | 33,220 |
| Interest expense | (9,025) | (130) | (1,905) | (11,060) |
| Other nonoperating revenues | 4,577 | 92,947 | 2,752 | 100,276 |
| Capital appropriations | 169 | — | — | 169 |
| Capital gifts | — | — | 9,629 | 9,629 |
| Contributions from affiliates, net | 44,481 | — | — | 44,481 |
| Transfers | 77,158 | (76,269) | (889) | — |
| Total nonoperating revenues | 249,778 | 22,036 | 36,626 | 308,440 |
| Change in net position | 18,162 | 43,714 | (8,660) | 53,216 |
| Net position - beginning of year | 704,988 | 164,566 | 116,718 | 986,272 |
| Net position - end of year | \$ 723,150 | \$ 208,280 | \$ 108,058 | \$ 1,039,488 |

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| | 2021 (Restated) | | | |
|---|-------------------|------------------------|-------------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Student tuition and fees, net | \$ 231,505 | \$ — | \$ — | \$ 231,505 |
| Clinical services and practice plan | 7,948 | 380,121 | — | 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 |
| Total operating revenues | 260,871 | 526,928 | 62,384 | 850,183 |
| Depreciation | 43,760 | 9,006 | 10,362 | 63,128 |
| Other operating expenses | 396,569 | 503,646 | 94,338 | 994,553 |
| Total operating expenses | 440,329 | 512,652 | 104,700 | 1,057,681 |
| Operating gain (loss) | (179,458) | 14,276 | (42,316) | (207,498) |
| State appropriations | 125,420 | — | — | 125,420 |
| Gifts | 75 | 2,905 | 18,342 | 21,322 |
| Interest on capital asset-related debt | (11,437) | (161) | (1,636) | (13,234) |
| Other nonoperating revenues | 4,704 | 85,409 | 3,389 | 93,502 |
| Capital appropriations | 120 | — | — | 120 |
| Capital gifts | — | — | 8,782 | 8,782 |
| Contributions from affiliates, net | 42,412 | — | — | 42,412 |
| Transfers | 34,273 | (38,097) | 3,824 | — |
| Total nonoperating revenues | 195,567 | 50,056 | 32,701 | 278,324 |
| Change in net position | 16,109 | 64,332 | (9,615) | 70,826 |
| Net position - beginning of year | 688,879 | 100,234 | 126,333 | 915,446 |
| Application of accounting change | — | — | — | — |
| Net position - end of year | \$ 704,988 | \$ 164,566 | \$ 116,718 | \$ 986,272 |

| | 2022 | | | |
|---|-------------------|------------------------|-------------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Cash (used)/provided by: | | | | |
| Operating activities | \$ (189,658) | \$ 16,142 | \$ (47,058) | \$ (220,574) |
| Noncapital financing activities | 237,096 | 51,894 | 24,403 | 313,393 |
| Capital and related financing activities | (64,448) | (3,797) | 20,951 | (47,294) |
| Investing activities | (60,200) | — | 3 | (60,197) |
| Net (decrease)/increase in cash and cash equivalents | (77,210) | 64,239 | (1,701) | (14,672) |
| Cash and cash equivalents, beginning of year | 194,072 | 42,542 | 26,024 | 262,638 |
| Cash and cash equivalents, end of year | \$ 116,862 | \$ 106,781 | \$ 24,323 | \$ 247,966 |

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| | 2021 (Restated) | | | |
|---|-------------------|---------------------|----------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Cash (used)/provided by: | | | | |
| Operating activities | \$ (131,527) | \$ 4,024 | \$ (33,803) | \$ (161,306) |
| Noncapital financing activities | 219,428 | 26,072 | 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) |
| Net (decrease)/increase in cash and cash equivalents | 45,148 | 22,571 | 3,763 | 71,482 |
| Cash and cash equivalents, beginning of year | 148,924 | 19,971 | 22,261 | 191,156 |
| Cash and cash equivalents, end of year | \$ 194,072 | \$ 42,542 | \$ 26,024 | \$ 262,638 |

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, 2022 and 2021 are as follows (in thousands):

| | 2022 | | | |
|---|---------------------|-------------------|---------------------|---------------------|
| | UL Foundation | UL RE Foundation | UL Health | Total |
| Current assets | \$ 31,243 | \$ 16,983 | \$ 1,074,270 | \$ 1,122,496 |
| Capital assets | 48,915 | 145,713 | 298,346 | 492,974 |
| Other noncurrent assets | 950,504 | 93,631 | 691,321 | 1,735,456 |
| Total assets | 1,030,662 | 256,327 | 2,063,937 | 3,350,926 |
| Current liabilities | 15,820 | 4,205 | 410,977 | 431,002 |
| Other noncurrent liabilities | 45,600 | 61,725 | 984,870 | 1,092,195 |
| Total liabilities | 61,420 | 65,930 | 1,395,847 | 1,523,197 |
| Restricted nonexpendable | 636,969 | — | — | 636,969 |
| Restricted expendable | 272,986 | — | 15,026 | 288,012 |
| Unrestricted | 59,287 | 190,397 | 653,064 | 902,748 |
| Total net position | 969,242 | 190,397 | \$ 668,090 | 1,827,729 |
| Total liabilities and net position | \$ 1,030,662 | \$ 256,327 | \$ 2,063,937 | \$ 3,350,926 |

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| | 2021 | | | |
|---|---------------------|-------------------|---------------------|---------------------|
| | UL Foundation | UL RE Foundation | UofL 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 |
| Total assets | 1,075,667 | 250,574 | 1,142,868 | 2,469,109 |
| Current liabilities | 17,769 | 2,667 | 461,886 | 482,322 |
| Other noncurrent liabilities | 47,219 | 72,034 | 113,269 | 232,522 |
| Total liabilities | 64,988 | 74,701 | 575,155 | 714,844 |
| Restricted nonexpendable | 650,132 | — | — | 650,132 |
| Restricted expendable | 300,231 | — | 24,658 | 324,889 |
| Unrestricted | 60,316 | 175,873 | 543,055 | 779,244 |
| Total net position | 1,010,679 | 175,873 | \$ 567,713 | 1,754,265 |
| Total liabilities and net position | \$ 1,075,667 | \$ 250,574 | \$ 1,142,868 | \$ 2,469,109 |

| | 2022 | | | |
|---|-------------------|-------------------|-------------------|---------------------|
| | UL Foundation | UL RE Foundation | UofL Health | Total |
| Patient revenue, net | \$ — | \$ — | \$ 2,023,518 | \$ 2,023,518 |
| Other operating revenue | 9,085 | 34,803 | 164,830 | 208,718 |
| Total operating revenue | 9,085 | 34,803 | 2,188,348 | 2,232,236 |
| Depreciation | 2,224 | 8,919 | 44,623 | 55,766 |
| Other operating expense | 66,642 | 11,360 | 2,006,912 | 2,084,914 |
| Total operating expense | 68,866 | 20,279 | 2,051,535 | 2,140,680 |
| Operating income (loss) | (59,781) | 14,524 | 136,813 | 91,556 |
| Gifts and donations | 50,310 | — | — | 50,310 |
| Investment income | (31,966) | — | (826) | (32,792) |
| Other nonoperating revenue (expense) | — | — | (35,610) | (35,610) |
| Total nonoperating revenue (expense) | 18,344 | — | (36,436) | (18,092) |
| Change in net position | (41,437) | 14,524 | 100,377 | 73,464 |
| Net position-beginning of year | 1,010,679 | 175,873 | 567,713 | 1,754,265 |
| Net position-end of year | \$ 969,242 | \$ 190,397 | \$ 668,090 | \$ 1,827,729 |

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| | 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 |
| Total operating revenue | 8,338 | 21,357 | 1,935,507 | 1,965,202 |
| Depreciation | 2,931 | 9,027 | 35,765 | 47,723 |
| Other operating expense | 59,716 | 10,031 | 1,785,114 | 1,854,861 |
| Total operating expense | 62,647 | 19,058 | 1,820,879 | 1,902,584 |
| Operating income (loss) | (54,309) | 2,299 | 114,628 | 62,618 |
| Gifts and donations | 38,636 | — | — | 38,636 |
| Investment income | 254,220 | — | 2,011 | 256,231 |
| Other nonoperating revenue (expense) | — | — | (29,599) | (29,599) |
| Total nonoperating revenue (expense) | 292,856 | — | (27,588) | 265,268 |
| Change in net position | 238,547 | 2,299 | 87,040 | 327,886 |
| Net position-beginning of year | 772,132 | 173,574 | 480,673 | 1,426,379 |
| Net position-end of year | \$ 1,010,679 | \$ 175,873 | \$ 567,713 | \$ 1,754,265 |

c. University of Louisville Foundation, Inc. and Affiliates

The University of Louisville Foundation, Inc. (ULF) and Affiliates (collectively, "Foundation") is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The University does not control the timing or amount of receipts from the Foundation. The majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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

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

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

Recent Accounting Pronouncements

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 adopted this new standard for the fiscal year ended June 30, 2022.

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2. ULF - Endowment

The Foundation's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments (board-designated endowment funds). As required by US GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board has interpreted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), adopted in the Commonwealth of Kentucky in July 2010, as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This policy is consistent for both donor-restricted endowment funds and board-designated endowment funds that have donor restrictions.

The composition of net assets by type of endowment fund at June 30, 2022 and 2021 was as follows (in thousands):

| | 2022 | | |
|----------------------------------|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | \$ — | \$ 630,374 | \$ 630,374 |
| Board-designated endowment funds | 35,510 | 170,066 | 205,576 |
| | \$ 35,510 | \$ 800,440 | \$ 835,950 |

| | 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 |
| | \$ 36,987 | \$ 826,461 | \$ 863,448 |

Changes in endowment net assets for the years ended June 30, 2022 and 2021 were as follows (in thousands):

| | 2022 | | |
|--|-------------------------------|----------------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | \$ 36,987 | \$ 826,461 | \$ 863,448 |
| Investment return: | | | |
| Investment and endowment income | | | — |
| Net appreciation | (448) | (11,019) | (11,467) |
| Total investment return | (448) | (11,019) | (11,467) |
| Contributions | — | 6,467 | 6,467 |
| Appropriations | (786) | (24,352) | (25,138) |
| Other changes | (243) | 2,883 | 2,640 |
| Endowment net assets, end of year | \$ 35,510 | \$ 800,440 | \$ 835,950 |

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| | 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 |
| Total investment return | 10,381 | 215,399 | 225,780 |
| Contributions | – | 6,571 | 6,571 |
| Appropriations | (660) | (22,045) | (22,705) |
| Other changes | (4,114) | 8,415 | 4,301 |
| Endowment net assets, end of year | \$ 36,987 | \$ 826,461 | \$ 863,448 |

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 \$0.3 million and \$0 at June 30, 2022 and 2021, 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 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.

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 (5.0%) and 34.0% in 2022 and 2021, respectively.

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3. ULF - Investments and Investment Income

Investments as of June 30, 2022 and 2021, are as follows (in thousands):

| | 2022 | 2021 |
|---------------------------------------|-------------------|-------------------|
| Cash equivalents | \$ 55,755 | \$ 50,790 |
| Alternate investments: | | |
| Hedge Funds | 87,449 | 137,470 |
| Investments in partnerships | 478,467 | 451,571 |
| Mutual funds: | | |
| Equity | 168,635 | 153,005 |
| Fixed Income | 15,088 | 18,837 |
| Marketable alternatives: | | |
| Domestic marketable equity securities | 34,748 | 50,996 |
| Marketable debt securities: | | |
| U.S. Treasury | 38,385 | 42,408 |
| Total Investments | \$ 878,527 | \$ 905,077 |

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.

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

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2022 and 2021, the amount under guarantee was \$6.3 million and \$6.6 million, respectively.

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

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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 \$27.0 million and \$35.0 million as of June 30, 2022 and 2021, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately \$32.0 million and \$40.0 million as of June 30, 2022 and 2021, respectively. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2022 and 2021, the Foundation recorded (losses) income of (\$13.0) million and \$18 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.

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, 2022 and 2021, the Foundation held approximately \$3.4 million and \$3.5 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, 2022 and 2021, the Foundation held approximately \$10.4 million and \$10.7 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, 2022 and 2021, the Foundation held approximately \$270,000 and \$274,000, 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 \$4.9 million and \$6.3 million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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.

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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, 2022 and 2021, the net receivable from ULREF is \$8.6 million and \$12.1 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, 2022 and 2021. See Note 7 for further information regarding the endowment.

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, 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, 2022 and 2021, ULREF recorded approximately \$9.0 million and \$7.6 million, respectively, of TIF revenues.

2. ULREF - Capital Assets

Capital assets at June 30, 2022 and 2021, consist of the following (in thousands):

| | 2022 | 2021 |
|------------------------------------|-------------------|-------------------|
| Land and land improvements | \$ 52,442 | \$ 49,642 |
| Buildings | 106,852 | 100,652 |
| Building improvements | 2,171 | 2,153 |
| Tenant finish | 3,669 | 3,542 |
| Furniture, fixtures, and equipment | 1,750 | 2,622 |
| | 166,884 | 158,611 |
| Accumulated depreciation | (22,293) | (18,977) |
| Construction-in-progress | 1,122 | 975 |
| | \$ 145,713 | \$ 140,609 |

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3. ULREF - Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2022 and 2021, were as follows (in thousands):

| | 2022 | | 2021 | |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets and liabilities: | | | | |
| In-place leases | \$ 354 | \$ (321) | \$ 354 | \$ (310) |
| Above-market leases | 2,917 | (897) | 2,917 | (774) |
| Tax incremental financing | 116,600 | (29,785) | 116,600 | (25,421) |

Amortization expense for each of the years ended June 30, 2022 and 2021, was approximately \$4.5 million and \$4.6 million, respectively.

At June 30, 2022, 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 |
|--------------|-----------------|---------------------|---------------------------|
| 2023 | \$ 11 | \$ 123 | \$ 4,364 |
| 2024 | 11 | 123 | 4,364 |
| 2025 | 9 | 123 | 4,364 |
| 2026 | 2 | 123 | 4,364 |
| 2027 | — | 123 | 4,364 |
| Thereafter | — | 1,405 | 64,995 |
| Total | \$ 33 | \$ 2,020 | \$ 86,815 |

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4. ULREF - Debt

Debt in the consolidated statements of financial position at June 30, 2022 and 2021 consists of the following (in thousands):

| Description | | Fiscal Year of Maturity | 2022 | 2021 |
|------------------------------------|--|-------------------------|------------------|------------------|
| Permanent Financing-22 Preston LLC | Fixed 3.65% rate with 5-year maturity and 20-year amortization commencing June 2019; quarterly principal and interest payments commencing September 2019 with all outstanding principal and interest payments due in full at the maturity date | 2024 | 7,940 | 8,406 |
| Note Payable - KYT, LLC | Variable rate based on 1-month SOFR rate, plus 2.05% with interest-only payments commencing July 2021 and principal payment at maturity | 2023 | 8,000 | 12,000 |
| Northwestern Mutual Loan- Housing | Fixed 4.77% rate with 20-year amortization commencing November 2018; principal and interest payments monthly commencing January 2019 | 2038 | 37,090 | 38,546 |
| Debt | | | \$ 53,030 | \$ 58,952 |
| Less debt issuance | | | (393) | (451) |
| Total debt | | | \$ 52,637 | \$ 58,501 |

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.

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 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: | |
|----------------------|------------------|
| 2023 | \$ 1,863 |
| 2024 | 17,067 |
| 2025 | 1,672 |
| 2026 | 1,754 |
| 2027 | 1,839 |
| Thereafter | 28,835 |
| Total | \$ 53,030 |

5. ULREF - Leasing Activities

ULREF leases space to tenants under non-cancelable operating leases. As of June 30, 2022, 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).

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

| | 2022 | 2021 |
|-------------------------|------------------|------------------|
| Base minimum rents | \$ 13,635 | \$ 12,198 |
| Common area maintenance | 142 | 139 |
| Total | \$ 13,777 | \$ 12,337 |

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

| Year ending June 30: | |
|----------------------|------------------|
| 2022 | \$ 3,013 |
| 2023 | 2,739 |
| 2024 | 2,063 |
| 2025 | 1,854 |
| 2026 | 1,427 |
| Thereafter | 19,216 |
| Total | \$ 30,312 |

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.

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

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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.

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.

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

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

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.

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, 2022 and 2021 is as follows (on the next page):

| | 2022 | 2021 |
|----------------------|--------------|--------------|
| Medicare | 13 % | 13 % |
| Medicaid | 3 % | 3 % |
| Managed care | 39 % | 39 % |
| Commercial and other | 43 % | 44 % |
| Self-pay | 2 % | 1 % |
| | 100 % | 100 % |

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
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4. Net Patient Service Revenue

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

| | 2022 |
|----------------------|--------------|
| Medicare | 13 % |
| Medicaid | 3 % |
| Managed Care | 25 % |
| Commercial and other | 58 % |
| Self-pay | 1 % |
| | 100 % |

5. Passport Health Plan by Molina Healthcare

Passport is a comprehensive risk-based entity that has separate financial statements available. Passport contracts with the Commonwealth of Kentucky's Medicaid program to provide comprehensive medical services to patients in its region. Passport also has a Medicare replacement insurance product. Sponsors and affiliated entities provide health care services to members at contracted rates. The Corporation has a 0% sponsorship interest in Passport as of June 30, 2022 and 2021 as the Corporation received approximately \$34,323,000 as part of the sale of certain Passport assets during 2020. The Corporation had an outstanding payment amount of \$10,335,877 from the sale of such assets during the year ending June 30, 2021, which was recorded in other accounts receivable on the balance sheet as of June 30, 2021. The Corporation received payment of \$7,611,933 during 2022, which resulted in a loss of \$2,723,944 and is recorded within other non-operating income (expense). During 2021, the Corporation sold its 19.16 shares of common stock in Passport, which resulted in a gain of \$12,776,000 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 \$20.2 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 \$13.2 million and \$16.6 million as refundable advance liabilities on the balance sheets as of June 30, 2022 and 2021, 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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For the Years Ended June 30, 2022 and 2021

As of and for the year ended June 30, 2022, revenues recognized and refundable advances were as follows:

| | Revenue Recognized | Refundable Advances | Total |
|--|-----------------------|------------------------|------------------|
| Provider relief fund | \$ 20,151 | \$ 13,189 | \$ 33,340 |
| Medicare accelerated and advance payment program | — | 31,814 | 31,814 |
| Ending balance as of June 30, 2021 | \$ 20,151 | \$ 45,003 | \$ 65,154 |

As of June 30, 2021, refundable advances were as follows:

| | Refundable Advances |
|--|------------------------|
| Provider relief funds | \$ 16,604 |
| Medicare accelerated and advance payment program | 115,344 |
| Ending balance as of June 30, 2020 | \$ 131,948 |

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 \$19.0 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)

| | 6/30/2022 | 6/30/2021 | 6/30/2020 | 6/30/2019 | 6/30/2018 |
|---|-------------------|-------------------|-------------------|--------------------|-------------------|
| Total OPEB liability | | | | | |
| Service Cost | \$ 2,795 | \$ 2,538 | \$ 2,437 | \$ 4,630 | \$ 5,203 |
| Interest | 1,956 | 2,318 | 2,497 | 3,296 | 2,728 |
| Difference between expected and actual experience | (458) | (1,687) | 1,923 | (1,718) | (2,608) |
| Changes of assumption | 4,967 | 5,757 | 5,488 | (27,504) | (5,495) |
| Benefit payments | (3,558) | (2,927) | (2,836) | (2,817) | (3,007) |
| Net change in OPEB Liability | \$ 5,702 | \$ 5,999 | \$ 9,509 | \$ (24,113) | \$ (3,179) |
| OPEB liability - beginning of year | 80,238 | 74,239 | 64,730 | 88,843 | 92,022 |
| OPEB liability - end of year | \$ 85,940 | \$ 80,238 | \$ 74,239 | \$ 64,730 | \$ 88,843 |
| Covered employee payroll | \$ 434,864 | \$ 490,221 | \$ 493,893 | \$ 450,332 | \$ 445,356 |
| Total OPEB liability as a percentage of covered employee payroll | 19.76 % | 16.37 % | 15.03 % | 14.37 % | 19.95 % |

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



**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, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University of Louisville's basic financial statements, and have issued our report thereon dated October 31, 2022. 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.

Report on 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2022-001 that we consider to be a significant deficiency.

Report on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

University of Louisville’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University of Louisville’s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. University of Louisville’s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 31, 2022

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS
A Component Unit of the Commonwealth of Kentucky
Schedule of Findings
For the Year Ended June 30, 2022

Section I – Financial Statement Findings

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

2022 – 001: Accounts Payable

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

Condition: During the audit process, CLA noted that controls related to cutoff of accounts payable were not operating effectively. As a result, an audit adjusting entry was recorded to increase accounts payable, capital assets, and expenses by approximately \$3,014,000, \$1,810,000, and \$1,204,000, respectively.

Criteria: The University must have controls in place to ensure that accounts payable and accruals are properly cutoff at year end.

Effect: Lack of controls in place to ensure cutoff of accounts payable and accruals 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 that accounts payable and accruals are properly cutoff at year end.

Repeat Finding: No

Recommendation: Management should properly oversee controls currently in place to ensure accounts payable and accruals are properly cutoff at year end.

Views of responsible officials and planned corrective actions: Search for unrecorded liabilities has historically been performed through the first week of August to align with a year end close by mid-August. The oversight of identified payments were disbursed during the last week of review and the entry was missed. Going forward, the review process will be expanded to include individuals processing payables in the initial identification of appropriate invoices. This change in process will bring in direct knowledge of payables processed during the period and supplement the review by accounting personnel.



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