

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

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

**Auditor's Report and Financial Statements  
June 30, 2018 and 2017**

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

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

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the University of Louisville Research Foundation, Inc. (Research Foundation), a component unit of the University of Louisville, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Research Foundation's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Research Foundation as of June 30, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

During fiscal year ended June 30, 2018, the Research Foundation adopted GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. As a result of the implementation of this standard, the Research Foundation reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

***Other Matters***

*Prior Year Financial Statements*

The 2017 financial statements of the Research Foundation were audited by other auditors whose report dated October 19, 2017, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 12, and the Schedule of Funding Progress on Page 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



**CliftonLarsonAllen LLP**

St. Louis, Missouri  
October 25, 2018

# UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

## A Component Unit of the University of Louisville

### Management's Discussion and Analysis (Unaudited)

#### Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Research Foundation, Inc. (Research Foundation) for the years ended June 30, 2018, 2017, and 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The University's strategic plan guides the Research Foundation's program. The Research Foundation accepts funding for research, training, and service from extramural sources and has maintained progress towards the goals established by the Kentucky Council on Postsecondary Education. During the fiscal year ended June 30, 2018, total awards were \$137.9 million, a decrease of \$9.9 million or 6.7%, as compared to fiscal year 2017. Some of the funding highlights include:

- \$3.6 million from the Kentucky IDeA Networks of Biomedical Research Excellence;
- \$2.8 million from National Institutes of Health (NIH) for Protection of Ischemic Mocardium – Administrative Core;
- \$2.5 million from NIH for Functional Microbiomics IAA Administrative Care;
- \$2.3 million from the NIH for Griffithsin-based Rectal Microbicides for Prevention of Viral Entry.

#### Using the Financial Statements

The Research Foundation's financial report includes the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The Research Foundation is presented here as a single entity and is also included in the financial statements of the University.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities*, requires the Research Foundation to present a classified Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position. Significant presentations under GASB Statement No. 35 with respect to the Research Foundation financial statements are as follows:

- Revenues and expenses are categorized as either operating or nonoperating. Certain revenues, including state appropriations, gifts, Pell and similar nonexchange grants, and investment income (loss) are considered nonoperating, as defined by GASB Statement No. 35. The Research Foundation's nonoperating revenues consist mainly of \$46.3 million and \$44.6 million in nonexchange grants and contract revenue for the years ended June 30, 2018 and 2017, respectively. These revenues relate to nonexchange transactions in which the Research Foundation is the beneficiary.

- Unexpended cash advances received for grants and sponsored programs are recorded as grant advances rather than as income when received. Such grant advance balances totaled \$4.2 million and \$2.6 million as of June 30, 2018 and 2017, respectively.
- Capital assets are depreciated and reported net of accumulated depreciation. The Research Foundation's capital assets as of June 30, 2018 and 2017 consist primarily of buildings, equipment and library materials with a net position value of \$57.7 million and \$61.7 million, respectively.

### **Financial Highlights**

The Research Foundation's financial position remains stable at June 30, 2018, with total assets of \$108.9 million and liabilities of \$89.1 million as compared to June 30, 2017 at \$105.9 million of total assets and \$56.0 million of liabilities. Net position, which represents the residual interest in the Research Foundation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, was \$18.3 million and \$49.9 million for the years ended June 30, 2018 and 2017, respectively.

Operating revenues amounted to \$379.9 million and \$363.1 million and operating expenditures were \$428.3 million and \$415.7 million resulting in a net operating loss of \$48.3 million and \$52.5 million for the years ended June 30, 2018 and 2017, respectively. When adjusted for net nonoperating revenues of \$33.2 million and \$40.4 million, net position of the Research Foundation decreased by \$15.1 million and \$12.1 million for the years ended June 30, 2018, and 2017, respectively.

### **Statements of Net Position**

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

A condensed version of the Research Foundation's assets, liabilities, and net position at June 30, 2018, 2017, and 2016 is summarized on the following page:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 - 2017</u> <u>Change</u>	<u>2017 - 2016</u> <u>Change</u>
<b>ASSETS</b>					
Current assets	\$ 44,760	\$ 37,763	\$ 49,750	\$ 6,997	\$ (11,987)
Capital assets	57,680	61,726	65,989	(4,046)	(4,263)
Other noncurrent assets	6,443	6,374	719	69	5,655
Total assets	<u>108,883</u>	<u>105,863</u>	<u>116,458</u>	<u>3,020</u>	<u>(10,595)</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,240	-	-	1,240	-
<b>LIABILITIES</b>					
Current liabilities	56,723	40,527	41,822	16,196	(1,295)
Noncurrent liabilities	32,348	15,514	12,684	16,834	2,830
Total liabilities	<u>89,071</u>	<u>56,041</u>	<u>54,506</u>	<u>33,030</u>	<u>1,535</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,722	-	-	2,722	-
<b>NET POSITION</b>					
Net investment in capital assets	57,690	61,726	65,989	(4,036)	(4,263)
Restricted - expendable	27,500	24,465	21,791	3,035	2,674
Unrestricted	(66,860)	(36,369)	(25,828)	(30,491)	(10,541)
Total net position	<u>\$ 18,330</u>	<u>\$ 49,822</u>	<u>\$ 61,952</u>	<u>\$ (31,492)</u>	<u>\$ (12,130)</u>

## Assets

Current assets of \$44.8 million consist of \$44.1 million of accounts receivable that are to be collected within the next year. Current accounts receivable increased by \$7.3 million, \$4.6 million in clinical activities and \$2.7 million in grant and contract activities.

Noncurrent assets consist mainly of \$57.7 million of capital assets, which decreased due to \$6.5 million in depreciation offset by additional capital asset purchases of \$2.5 million.

## Deferred Outflows of Resources

Deferred outflow of resources represents a consumption of net assets applicable to a future period. The balance of \$1.2 million as of June 30, 2018 consisted of future payments to be made for other post-employment benefits.

## Liabilities

The Research Foundation's current liabilities consist of amounts due to the University of \$40.0 million for funding of operational expenses. This amount increased \$18.0 million from the prior year. Additionally, current liabilities include \$4.2 million of unexpended cash advances for sponsored research activities, an increase of \$1.5 million compared to June 30, 2017. The Research Foundation is required to set up a liability when awards are paid in advance, as they are responsible for paying back any unused funds to the sponsor. The remaining \$12.6 million of current liabilities relates to trade accounts payable and other accrued liabilities. The Research Foundation's allocated portion of other post-employment benefits totals \$32.3 million, shown as other long-term liabilities and increased by \$16.8 million due to the adoption of GASB 75 as further described in the footnotes to the financial statements.

## **Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position that applies to future periods. The balance of \$2.7 million is related to a change in actuarial assumptions and the difference between expected and actual experience used in the other postemployment benefit liability with the adoption of GASB 75.

## **Net Position**

Net position represents the residual interest in the Research Foundation's assets after liabilities are deducted. The Research Foundation's net position at June 30, 2018 and 2017 was \$18.3 million and \$49.8 million, respectively. Net position is summarized into the three major categories in accordance with GASB Statement No. 35 and GASB Statement No. 63 reporting requirements as follows:

### **Net Investment in Capital Assets**

The Research Foundation's net investments in capital assets represents construction in progress, buildings, equipment and depreciable library materials, net of accumulated depreciation. There is no debt attributable to the acquisition, construction or improvement of those assets. Capital assets decreased by \$4.0 million from 2017. This decrease reflects \$6.5 million of depreciation and addition of capital assets of \$2.5 million.

### **Restricted Expendable Net Position**

Restricted expendable net position represents funds primarily from fixed payment contracts that are subject to externally imposed restrictions governing their use. Net position results from the excess of contract revenues over expenses incurred through June 30, 2018. The amounts remain restricted until the contract is completed.

Restricted expendable net position increased \$3.0 million, or 12%. The overall increase is due mainly to an increase in nongovernmental grants.

### **Unrestricted Net Position**

Unrestricted net position decreased by \$15.1 million before the adoption of GASB 75 which restated opening net position by \$16.3 million. The decrease in unrestricted net position results primarily from actual operating expenses exceeding clinical services and fixed contract revenues.

The adoption of new accounting requirements for other post-employment benefits resulted in the restatement of unrestricted net position as of June 30, 2018 by a reduction of \$16.3 million. The restatement is not represented in the June 30, 2017 financial statements.

## **Fiscal Year 2017**

The Research Foundation's financial position as of the fiscal year ended June 30, 2017 shows a decrease in assets and an increase in liabilities with an overall decrease in net position. Assets decreased during the fiscal year ended June 30, 2017 by \$10.6 million, or 9%, as compared to the fiscal year ended June 30, 2016. This decrease was due mainly to the \$12.3 million decrease in current accounts receivable. The increase in liabilities of \$1.5 million mainly resulted from the increase in other postemployment benefits..

Net position decreased \$12.1 million, or 19.6%, due mainly to total operating expenses exceeding total revenues.



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

The statements of revenues, expenses and changes in net position present the Research Foundation's results of operations. A condensed version of the Research Foundation's revenues, expenses and changes in net position for the years ended June 30, 2018, 2017, and 2016 is shown:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 - 2017</u> <u>Change</u>	<u>2017 - 2016</u> <u>Change</u>
<b>OPERATING REVENUES</b>					
Clinical services	\$ 248,244	\$ 245,135	\$ 233,981	\$ 3,109	\$ 11,154
Grants and contracts	98,424	89,728	103,121	8,696	(13,393)
Facilities and administrative cost recoveries	27,035	25,064	24,611	1,971	453
Other operating revenues	6,224	3,214	3,897	3,010	(683)
Total operating revenues	<u>379,927</u>	<u>363,141</u>	<u>365,610</u>	<u>16,786</u>	<u>(2,469)</u>
<b>OPERATING EXPENSES</b>					
Depreciation	6,537	7,072	7,914	(535)	(842)
Other operating expenses	421,718	408,596	401,675	13,122	6,921
Total operating expenses	<u>428,255</u>	<u>415,668</u>	<u>409,589</u>	<u>12,587</u>	<u>6,079</u>
Operating loss	<u>(48,328)</u>	<u>(52,527)</u>	<u>(43,979)</u>	<u>4,199</u>	<u>(8,548)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Nonexchange grants and contracts	46,349	44,629	43,417	1,720	1,212
Other nonoperating revenues	(13,167)	(1,741)	(7,118)	(11,426)	5,377
Total nonoperating revenues	<u>33,182</u>	<u>40,397</u>	<u>33,211</u>	<u>(7,215)</u>	<u>7,186</u>
Decrease in net position	(15,146)	(12,130)	(10,768)	(3,016)	(1,362)
<b>NET POSITION</b>					
Net position, beginning of year	49,822	61,952	72,720	(12,130)	(10,768)
Cumulative effect of change in accounting principle	(16,346)	-	-	-	-
Net position, end of year	<u>\$ 18,330</u>	<u>\$ 49,822</u>	<u>\$ 61,952</u>	<u>\$ (15,146)</u>	<u>\$ (12,130)</u>

### Operating Revenues

The Research Foundation recognized \$379.9 million in operating revenues for the year ended June 30, 2018. This represents an increase of \$16.8 million, or 5% in revenues from the \$363.1 million reported for the year ended June 30, 2017.

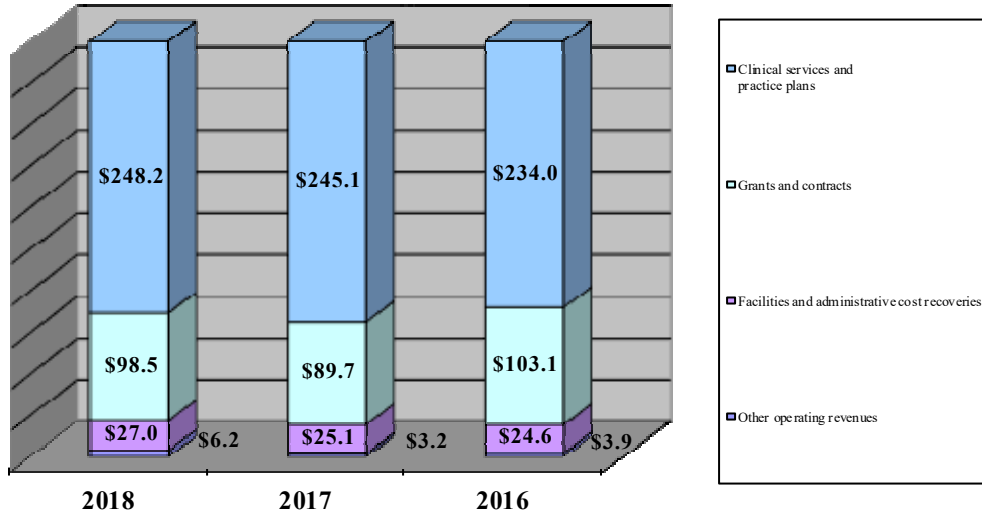
Revenues from clinical services were \$248.2 million for the year ended June 30, 2018. This is an increase of approximately \$3.1 million, or 1%, compared to \$245.1 million in similar revenues reported for the year ended June 30, 2017. The majority of the increase is attributed to increases in Medicaid related patient and intergovernmental transfers.

Revenues from grants and contracts were \$98.4 million for the year ended June 30, 2018 as compared to \$89.7 million in revenues reported in the previous year. This includes an increase of \$5.0 million in nongovernmental grants and contracts and an increase of \$4.1 million in federal grants and contracts.

Revenue from facilities and administrative cost recoveries were \$27.0 million and \$25.1 million for the years ended June 30, 2018 and 2017, respectively. The Research Foundation, compensates the University for a portion of the cost recoveries in support of University expenditures. For the years ended June 30, 2018 and 2017, approximately \$11.8 million and \$10.9 million, respectively, were transferred to the University for this purpose.

The following is a graphic illustration of the Research Foundation’s operating revenues by major source for the years ended June 30, 2018, 2017, and 2016 (in millions).

**Operating Revenues**  
**Years Ended June 30, 2018, 2017, and 2016**

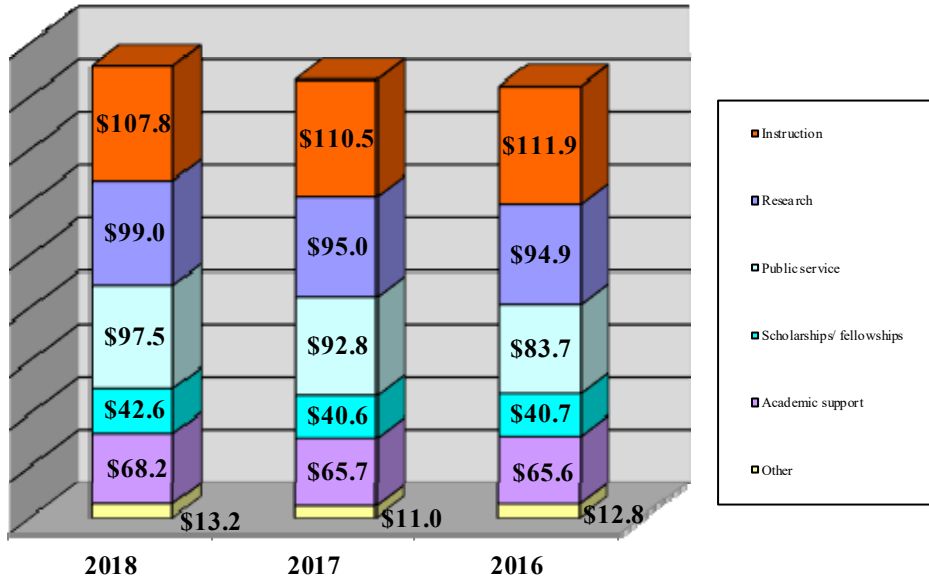


**Operating Expenses by Functional and Natural Class**

Total operating expenses were \$428.3 million and \$415.7 million for the fiscal years ended June 30, 2018 and 2017, respectively. The primary reason for the increase of \$12.6 million, or 2.9%, is an increase of \$10.7 million in salary expense as shown in the operating expenses by natural classification chart on the following page. Expenses in functional classification for instruction, research and public service all increased due to the increases in salaries.

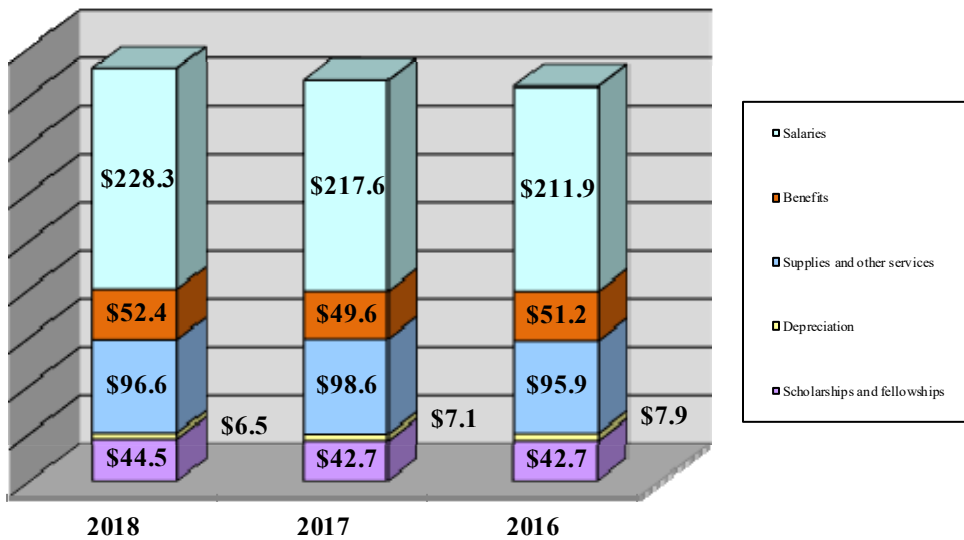
The following is a graphic illustration of total operating expenses by function for the years ended June 30, 2018, 2017 and 2016 (in millions):

**Operating Expenses by Functional Classification**  
Years ended June 30, 2018, 2017, and 2016



The following is a graphic illustration of total operating expenses by natural classification for the years ended June 30, 2018, 2017 and 2016 (in millions):

**Operating Expenses by Natural Classification**  
Years ended June 30, 2018, 2017, and 2016



## Nonoperating Revenues (Expenses)

The Research Foundation's total nonoperating revenues of \$33.2 million for fiscal year ended June 30, 2018, was mostly comprised of nonexchange grants and contract revenues of \$46.3 million and transfer expenses of \$14.3 million. Total nonoperating revenues decreased by \$7.2 million as compared to fiscal year ended June 30, 2017. The decrease is attributed to a decrease in other nonoperating income of \$1.3 million and 0.4 million in gifts. The decrease was offset by an increase in nonexchange grants and contracts of \$1.7 million in fiscal year ending June 30, 2018.

### Fiscal Year 2017

For the year ended June 30, 2017, Research Foundation reported \$363.1 million in operating revenues, a decrease of \$2.5 million, or 1% compared to the \$365.6 million reported for the year ended June 30, 2016.

Revenues from clinical services were \$245.1 million for fiscal year 2017, an increase of \$11.2 million or 5% from the fiscal year ended June 30, 2016. The majority of the increase is attributed to increases in Medicaid related patient and intergovernmental transfers.

Revenue from facilities and administrative cost recoveries were \$25.1 million and \$24.6 million for the years ended June 30, 2017 and 2016, respectively. The Research Foundation transferred approximately \$10.9 million and \$10.0 million during the years ended June 30, 2017 and 2016, respectively, in recognition of indirect support provided by the University.

Total operating expenses were \$415.7 million and \$409.6 million for the fiscal years ended June 30, 2017 and 2016, respectively. The increase of \$6.1 million, or 1%, was an increase in salary expense.

## Statements of Cash Flows

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

Condensed statements of the Research Foundation's cash flows for the years ended June 30, 2018, 2017, and 2016, are summarized on the following page:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018 - 2017</u> <u>Change</u>	<u>2017 - 2016</u> <u>Change</u>
Cash (used)/provided by:					
Operating activities	\$ (48,963)	\$ (26,890)	\$ (49,994)	\$ (22,073)	\$ 23,104
Noncapital and related financing activities	51,458	29,710	53,750	21,748	(24,040)
Capital financing activities	(2,534)	(2,877)	(3,809)	343	932
Investing activities	<u>39</u>	<u>57</u>	<u>53</u>	<u>(18)</u>	<u>4</u>
Net decrease in cash	-	-	-	-	-
Cash and cash equivalents, beginning of year	-	-	-	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## Operating Activities

The Research Foundation's operating activities used approximately \$49.0 million of cash during the fiscal year ended June 30, 2018, representing an increase of \$22.1 million compared to the prior year. The most significant increases were in cash outflows for salaries and benefits of \$29.5 million offset by an increase in clinical services of \$7.6 million from operations during the fiscal year ended June 30, 2018.

## **Other Activities**

The \$51.5 million cash provided by noncapital and related financing activities relates mainly to the \$46.3 million provided by nonexchange grants and contracts. It also includes the Research Foundation's transfer of \$14.3 million to the University as reimbursement for indirect charges to support the use of buildings and labs and support from the University of \$18.3 million for operating revenue shortfalls. In total, cash provided by noncapital and related financing activities increased \$21.7 million from the fiscal year ended June 30, 2017.

Cash used for capital financing activities decreased \$0.3 million to \$2.5 million during the fiscal year ended June 30, 2018, due to a decrease in capital assets purchased. Cash used for capital financing activities decreased \$0.9 million during the fiscal year ended June 30, 2017.

## **Fiscal Year 2017**

The Research Foundation operating activities used approximately \$26.9 million of cash during the fiscal year ended June 30, 2017, representing a decrease of \$23.1 million compared to the cash used for operations in the prior year. While all categories of operating activities experienced an increase in cash activities the most significant were the increase in cash inflow from clinical services for \$11.8 million and the decrease in cash outflow for payments to suppliers of \$2.2 million from operations during the fiscal year ended June 30, 2017.

The \$29.7 million cash provided by noncapital and related financing activities relates mainly to the \$44.6 million provided by nonexchange grants and contracts and an increase in funding from the University of \$10.6 million. It also includes the Research Foundation's transfer of \$7.1 million to the University as reimbursement for indirect charges to support the use of buildings and labs. In total, cash provided by noncapital and related financing activities increased \$0.9 million from the fiscal year ended June 30, 2016.

## **Economic Factors that May Affect the Future**

The University is committed to achieving preeminence as a nationally recognized metropolitan research university and as an institution recognized for excellence in education, as well as pioneering in research and scholarly activity. Senior leadership continues to believe the University is financially well-positioned to educate and serve its community through:

- Teaching diverse undergraduate, graduate, and professional students in order to develop engaged citizens, leaders, and scholars,
- Practicing and applying research, scholarship and creative activity, and
- Providing engaged service and outreach that improve the quality of life for local and global communities.

The following is a brief discussion of economic and other factors that could have an impact on the University in the future:

- The US economy appears to have strengthened over the most recent year with many positive trends in key economic indicators. Moderate growth in GDP and a continuing improved unemployment picture suggest a stable near-term economic outlook for the country. However, slight inflationary movements and upticks in interest rates may create wage rate pressure and increase the cost of borrowing.

- At present, current administration has held firm funding to the National Institutes of Health (NIH), which funds many research project across the country including at UofL, and the amount of overhead that universities can recover for supporting federally-funded research. However, the administration continues to assess ways to “stretch” funding dollars further using different methods. The University continues to monitor the situation.
- The economic outlook for the Commonwealth of Kentucky also appears to have strengthened over the most recent year with the exception of the state’s public pension system. The final fiscal year 2018 General Fund receipts increased 3.4 percent over 2017 and rose for the eighth consecutive year. Personal income grew by 3.7 percent in the fourth quarter of 2018 and is expected to grow at a solid rate of 4.9 percent over the next three quarters. Red flags still exist due to the mismatch between middle-wage employment and the skill level of the unemployed. Also, Kentucky’s earned income relative to the U.S. is only at 73 percent, which ranks 47<sup>th</sup> among the states.
- Kentucky’s public universities continue to face increasingly difficult business conditions rooted in state funding reductions. Large pension burdens weighing on the Commonwealth of Kentucky are expected to lead to further cuts in state appropriations for higher education. Kentucky is working on improving its overall budget through measures that include tax reform and comprehensive pension reform. Tax reform enacted in 2018 establishes a 5% flat income tax rate for individuals and corporations, broadens the sales tax base to include tax on certain services and increases the cigarette tax.
- It is expected that state performance funding systems will continue to expand whereby institutions are incentivized to improve student outcomes based on priorities (metrics) identified by the state. Performance-based funding adds an element of budgetary uncertainty for the university. Kentucky first implemented a performance-funding model in 2017. Under existing statute, public universities and colleges will not lose state funds based on performance through 2019. In 2020 and beyond, a portion of each university’s state appropriation will depend upon how it performs on several student and operational metrics relative to other universities.
- The projected high school graduate population in the near- and medium-term future is strong through 2026. Institutions focused on first-time, full-time baccalaureate degree-seeking students will be gearing up and recruiting hard during the three year period 2024 to 2026 when graduation rates are expected to peak. However, between years 2027 and 2032, the average graduating class size is expected to decline to levels similar to 2013 which will heighten competition and constrain tuition revenue.

## **REQUESTS FOR INFORMATION**

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

**University of Louisville Research Foundation, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Net Position**  
**As of June 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Accounts receivable, net	\$ 44,065	\$ 36,730
Due from Affiliate	65	296
Inventories	412	455
Other assets	218	282
Total current assets	<u>44,760</u>	<u>37,763</u>
Noncurrent Assets:		
Accounts receivable, net	811	742
Other long-term assets	2	2
Due from Affiliate	5,630	5,630
Capital assets, net	57,680	61,726
Total noncurrent assets	<u>64,123</u>	<u>68,100</u>
Total assets	<u>108,883</u>	<u>105,863</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	1,240	-
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	12,580	16,014
Due to University of Louisville	39,988	21,904
Grant advances	4,155	2,609
Total current liabilities	<u>56,723</u>	<u>40,527</u>
Noncurrent Liabilities:		
Other long-term liabilities	32,348	15,514
Total noncurrent liabilities	<u>32,348</u>	<u>15,514</u>
Total liabilities	<u>89,071</u>	<u>56,041</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	2,722	-
<b>NET POSITION</b>		
Net investment in capital assets	57,690	61,726
Restricted - expendable for:		
Research	19,873	16,799
Instruction	634	7
Public service	2,897	3,981
Scholarships and fellowships	278	3
Academic support	6	6
Institutional Support	3,740	3,669
Operation and Maintenance	72	-
Unrestricted	(66,860)	(36,369)
Total net position	<u>\$ 18,330</u>	<u>\$ 49,822</u>

**See notes to the financial statements**

**University of Louisville Research Foundation, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Clinical services, net of contractual allowances of \$96,364 in 2018 and \$92,300 in 2017	\$ 248,244	\$ 245,135
Federal grants and contracts	72,469	68,362
State and local grants and contracts	8,191	8,603
Nongovernmental grants and contracts	17,764	12,763
Other operating revenue	6,224	3,214
Facilities and administrative cost recoveries	27,035	25,064
Total operating revenues	<u>379,927</u>	<u>363,141</u>
<b>OPERATING EXPENSES</b>		
Instruction	107,818	110,507
Research	98,992	94,950
Public service	97,489	92,794
Scholarships and fellowships	42,598	40,553
Academic support	68,186	65,717
Institutional support	7,040	3,598
Operation and maintenance of plant	(468)	464
Depreciation	6,537	7,072
Student services	64	8
Service centers	(1)	5
Total operating expenses	<u>428,255</u>	<u>415,668</u>
Operating loss	<u>(48,328)</u>	<u>(52,527)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	503	886
Nonexchange grants and contracts	46,349	44,629
Investment income	-	8
Net realized and unrealized gain on investments	39	57
Other nonoperating income	552	1,902
Net nonoperating revenues	<u>47,443</u>	<u>47,482</u>
Contributions to related entities	(14,261)	(4,594)
Contributions to Affiliate	-	(2,491)
Total other revenues	<u>33,182</u>	<u>40,397</u>
Decrease in net position	<u>(15,146)</u>	<u>(12,130)</u>
<b>NET POSITION</b>		
Net position - beginning of year	49,822	61,952
Cumulative effect of change in accounting principle	(16,346)	-
Net position - end of year	<u>\$ 18,330</u>	<u>\$ 49,822</u>

**See notes to the financial statements**



**University of Louisville Research Foundation, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2018 and 2017**  
**(In Thousands)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Clinical services	\$ 248,345	\$ 240,755
Grants and contracts	100,308	101,386
Facilities and administrative cost recoveries	27,035	25,064
Other operating revenue	6,224	3,212
Payments to employees	(236,302)	(212,169)
Payments for benefits	(50,267)	(46,774)
Payments for scholarships and fellowships	(44,493)	(42,707)
Payments to suppliers	(99,813)	(95,657)
Net cash used by operating activities	(48,963)	(26,890)
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Contributions to/from related entities	(14,261)	(7,085)
Gifts	503	886
Nonexchange grants and contracts	46,349	44,628
Due to (due from) University of Louisville	18,315	(10,630)
Other noncapital financing activity	552	1,911
Net cash provided by noncapital and related financing activities	51,458	29,710
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(2,534)	(2,877)
Net cash used by capital and related financing activities	(2,534)	(2,877)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments	39	57
Net cash provided by investing activities	39	57
Net decrease in cash and cash equivalents	-	-
Cash and cash equivalents - beginning of year	-	-
Cash and cash equivalents - end of year	\$ -	\$ -
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (48,328)	\$ (52,527)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,537	7,072
Loss on disposal of equipment	44	67
Changes in assets and liabilities:		
Accounts receivable, net	(7,405)	12,294
Inventories	42	(60)
Other assets	65	24
Accounts payable and accrued liabilities	(3,434)	2,739
Grant advances	1,546	673
Other long-term liabilities	488	2,828
Deferred outflows	(1,240)	-
Deferred outflows	2,722	-
Net cash used by operating activities	\$ (48,963)	\$ (26,890)

**See notes to the financial statements**

**University of Louisville Research Foundation, Inc.**

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

**Notes to Financial Statements**

**June 30, 2018 and 2017**

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

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

a. Basis of Presentation

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

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

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

b. Cash and Cash Equivalents

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

c. Accounts Receivable

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

d. Inventories

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

e. Capital Assets

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

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

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

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

f. Deferred Inflows and Outflows of Resources and Net Position

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Foundation reports deferred outflows of resources, deferred inflows of resources and net position in its statement of net position and related disclosures. Deferred outflows of resources of \$1.2 million for the year ended June 30, 2018, consist of future payments to be made for other post-employment benefits. Deferred inflows of resources of \$2.7 million as of June 30, 2018 consist of changes in the other post-employment benefits liability and will be amortized into expenses in future periods.

It is not practical for the Research Foundation to determine the amounts of all deferred inflows of resources and deferred outflow of resources related to implementation of changes in accounting for other post-retirement benefits as of the beginning of the fiscal year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net other post-employment benefit liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017.

g. Classification of Revenues

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) clinical services, (2) grants and contracts, and (3) facilities and administrative cost recoveries.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as Pell and other grants and contracts, gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements-And Managements Discussion and Analysis-For State and Local Governments*.

h. Net Clinical Services Revenue

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

i. Grant Advances

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

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

In the case of advanced funding, the Research Foundation receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor in the event the project is not completed to the sponsor's satisfaction. These funds, totaling approximately \$4.2 million and \$2.6 million as of June 30, 2018 and 2017, respectively, are recorded as a liability in the Research Foundation's financial statements as grant advances and recognized as revenue as reimbursable cost are incurred.

j. Compensated Absences

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

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

k. Net Position

The net position of the Research Foundation is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Research Foundation.

Unrestricted net position consists of the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

l. Government Grants

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

m. Tax Status

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

n. Use of Estimates

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

o. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statement of revenues, expense and changes in net position. These reclassifications had no effect on the change in net position.

p. Recent Accounting Pronouncements and Restatement

As of June 30, 2018, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB).

OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

Implementation of this Statement required adjustments to the Statement of Net Position reported as of June 30, 2017 by reflecting the cumulative effect of change in accounting principal.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The university elected to early adopt the statement and discontinue capitalization of interest related to the construction of capital assets.

As of June 30, 2018, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB Statement No. 85, *Omnibus 2017*. The Statement addresses practice issues identified during implementation and application of certain GASB Statements of a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

As of June 30, 2018, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 87, *Leases*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

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

## **2. Cash and Cash Equivalents**

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

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

## **3. Transactions with Related Entities**

### **a. Contributions with Related Entities**

The University provides certain facilities and administrative services to the Research Foundation for a share of the facilities and administrative cost recoveries. The current agreement provides for a transfer of 80%, after certain deductions, of the amount realized. Transfers from the Research Foundation to the University for their portion of cost recoveries totaled \$11.8 million and \$10.9 million for the years ended June 30, 2018 and 2017, respectively. Additional research support transfers to the University totaled \$2.8 million for the year ending June 30, 2018.

The Research Foundation transferred \$1.9 million and \$0.5 million related to capital projects and debt service payments during the years ended June 30, 2018 and 2017, respectively, to the University. These transfers relate to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University.

For each of the years ended June 30, 2018 and 2017, the Research Foundation was the recipient of \$2.1 million and \$6.3 million, respectively, from related entities to assist in funding cost share required by certain sponsored programs and grants.

Additionally, the Research Foundation transferred of \$2.7 million and received transfers of \$0.4 million from related entities for the years ended June 30, 2018 and 2017, respectively.

The Research Foundation transferred \$0 and \$2.5 million for the years ended June 30, 2018 and 2017, respectively, to the PMOB, Inc. an affiliate entity, to fund shared construction cost of a pediatric building.

b. Receivables With Related Entities

The Research Foundation received a \$5.9 million unsecured, noninterest bearing note from University of Louisville Physicians, Inc., an affiliate entity, for past due fees owed the Research Foundation. The outstanding note balance is \$5.7 million as of June 2018.

c. Guarantees

A memorandum of understanding dated April 2017 between the Research Foundation and ULP establishes obligations of the Research Foundation in the event ULP does not meet certain requirements under a lease agreement with PMOB, Inc. PMOB, Inc. has a \$48.6 million loan with a financial institution to construct a medical office building. ULP entered into a lease with PMOB, Inc. for a majority of the space within the medical office building and to provide \$9.5 million of furniture, fixtures and equipment for the leased space. For as long as the loan agreement between PMOB, Inc. and the financial institution remains in effect, the Research Foundation has provided assurance through a guarantee that all of ULP's obligations due to PMOB, Inc. under the lease and any unfunded portion of the leased premise furniture, fixture and equipment will be paid. The Research Foundation's obligation shall not exceed funds received by the Research Foundation for services provided by ULP for clinical services as of the date of the memorandum of understanding.

A memorandum of understanding dated March 2017 between the Research Foundation and ULP establishes the obligation for the Research Foundation to make annual lump sum payments through July 2020 to a lending institution holding debt of ULP for the servicing of ULP scheduled debt payments. The payments made by the Research Foundation are for services rendered by ULP.

4. Accounts Receivable, net

Accounts receivable, net as of June 30, 2018 and 2017, are summarized as follows (in thousands):

	2018		Net Receivable
	Gross Receivable	Allowance	
Patient care	\$ 67,381	\$ (41,729)	\$ 25,652
Sponsored agreements	20,987	(1,763)	19,224
Total	<u>\$ 88,368</u>	<u>\$ (43,492)</u>	44,876
Current portion			44,065
Noncurrent portion			<u>\$ 811</u>



	<b>2017</b>		
	<b>Gross</b>		<b>Net</b>
	<b>Receivable</b>	<b>Allowance</b>	<b>Receivable</b>
Patient care	\$ 69,073	\$ (48,148)	\$ 20,925
Sponsored agreements	18,310	(1,763)	16,547
Total	<u>\$ 87,383</u>	<u>\$ (49,911)</u>	<u>37,472</u>
Current portion			36,730
Noncurrent portion			<u>\$ 742</u>

## 5. Capital Assets, net

Capital assets at historical cost as of June 30, 2018 and 2017 are summarized as follows (in thousands):

	<b>2018</b>				
	<b>Beginning</b>				<b>Ending</b>
	<b>Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance</b>
<b>Cost - Nondepreciable</b>					
Land	\$ 352	\$ -	\$ -	\$ -	\$ 352
Subtotal	<u>352</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352</u>
<b>Cost - Depreciable</b>					
Building	70,727	-	-	-	70,727
Infrastructure	929	-	-	-	929
Land improvements	237	-	-	-	237
Equipment	85,478	2,519	(1,416)	-	86,580
Leasehold improvements	818	-	-	-	818
Library materials	44	15	-	-	59
Subtotal	<u>158,232</u>	<u>2,534</u>	<u>(1,416)</u>	<u>-</u>	<u>159,351</u>
Total capital assets - cost	<u>158,585</u>	<u>2,534</u>	<u>(1,416)</u>	<u>-</u>	<u>159,702</u>
<b>Accumulated depreciation</b>					
Buildings	20,107	2,877	-	-	22,984
Infrastructure	54	15	-	-	71
Land improvements	46	6	-	-	52
Equipment	75,888	3,631	(1,372)	-	78,147
Leasehold improvements	720	6	-	-	726
Library materials	41	2	-	-	43
Subtotal	<u>96,859</u>	<u>6,537</u>	<u>(1,372)</u>	<u>-</u>	<u>102,023</u>
Capital assets, net	<u>\$ 61,726</u>	<u>\$ (4,003)</u>	<u>\$ (44)</u>	<u>\$ -</u>	<u>\$ 57,680</u>

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers (to)/from Affiliates</b>	<b>Ending Balance</b>
<b>Cost - Nondepreciable</b>					
Land	\$ 352	\$ -	\$ -	\$ -	\$ 352
Subtotal	352	-	-	-	352
<b>Cost - Depreciable</b>					
Building	70,727	-	-	-	70,727
Infrastructure	929	-	-	-	929
Land improvements	237	-	-	-	237
Equipment	84,493	2,877	(1,892)	-	85,478
Leasehold improvements	818	-	-	-	818
Library materials	44	-	-	-	44
Subtotal	157,248	2,877	(1,892)	-	158,233
Total capital assets - cost	157,600	2,877	(1,892)	-	158,585
<b>Accumulated depreciation</b>					
Buildings	17,231	2,876	-	-	20,107
Infrastructure	40	15	-	-	55
Land improvements	40	6	-	-	46
Equipment	73,547	4,167	(1,825)	-	75,889
Leasehold improvements	714	6	-	-	720
Library materials	40	2	-	-	42
Subtotal	91,612	7,072	(1,825)	-	96,859
Capital assets, net	\$ 65,988	\$ (4,195)	\$ (67)	\$ -	\$ 61,726

## 6. Other Liabilities

Other liabilities of the Research Foundation consisted of the following at June 30, 2018 and 2017 (in thousands):

	<b>2018</b>					
	<b>Beginning Balance (as restated)</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Other postemployment benefits	\$ 33,556	\$ -	\$ (1,208)	\$ 32,348	\$ -	\$ 32,348
Total	\$ 33,556	\$ -	\$ (1,208)	\$ 32,348	\$ -	\$ 32,348
	<b>2017</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Other postemployment benefits	\$ 14,337	\$ 3,887	\$ (1,015)	\$ 17,209	\$ 1,695	\$ 15,514
Total	\$ 14,337	\$ 3,887	\$ (1,015)	\$ 17,209	\$ 1,695	\$ 15,514

The current portion of other postemployment benefits is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2017.

## 7. Revenues From Clinical Services

### a. Clinics and Laboratories

The University's Health Science Center operates various clinics, which generate revenues from the treatment of patients, as well as laboratory services. Net revenues associated with the operations of these clinics totaled approximately \$119.6 million and \$119.1 million for the years ended June 30, 2018 and 2017, respectively.

### b. University of Louisville School of Medicine Practice Plan (the Plan)

The Plan requires each clinical department of the University of Louisville, School of Medicine to establish a departmental entity, which bears the financial obligation pursuant to the Plan. The departmental entity must receive contributions from the faculty practice groups and remit the contributions as specified in the Plan.

The faculty practice groups remit funds in two forms. The first portion, Academic Program Support, as defined in the Plan, is remitted directly to the Research Foundation to support the academic programs in the clinical departments. Academic Program Support remitted to the Research Foundation totaled approximately \$0.6 million and \$0.0 million for the years ended June 30, 2018 and 2017, respectively. The second portion, the Dean's Fund, is collected from departmental entities and is used by the Dean to provide additional support for the clinical, academic programs and other activities of the Medical School. Amounts remitted to the Research Foundation for the Dean's Fund totaled approximately \$3.9 million and \$7.0 million for the years ended June 30, 2018 and 2017, respectively.

### c. KentuckyOne Health, Inc. Affiliation Agreement

In November, 2012, the University and KentuckyOne Health, Inc. (KentuckyOne) entered into an agreement that calls for, among other things, KentuckyOne to provide funding (salary, benefits, and malpractice coverage) for certain full-time equivalent resident positions over the term of the affiliation agreement at University of Louisville Hospital (Hospital). Funding for residents is determined annually and takes into account (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital, and (c) the clinical load at the Hospital and related facilities. Funding from the affiliation agreements for the years ended June 30, 2018 and 2017 was approximately \$66.4 million and \$65.6 million, respectively. This agreement addresses the patient care needs of the Hospital's inpatients.

### d. Norton Healthcare

In December 17, 2015, Norton Healthcare, Inc., (Norton) and the University of Louisville and the Commonwealth of Kentucky agreed to a Settlement Agreement, a First Amendment to Lease and a First Amendment to Master Affiliation Agreement. These agreements provide for \$30.0 million annual support payments from Norton to the University and its affiliates through Individual Agreements for research, academic support, residences and fellowships and related costs. In addition, the agreement stipulates that Norton provide additional financial support to the University of Louisville Pediatrics Department of \$24.0 million over eight years and expend at least \$35.0 million in facility improvements and other capital expenditures at Kosair Children's Hospital. Payments received by the University and its affiliates are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Funding for the agreement for the years ended June 30, 2018 and 2017 was \$24.1 million and \$20.0 million, respectively.

e. Other Clinical Revenues

The Research Foundation works with other area hospitals by providing support services, such as residents and other staff. Revenues associated with these activities totaled approximately \$33.6 million and \$33.4 million for the years ended June 30, 2018 and 2017, respectively.

8. Expenses

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 were approximately (in thousands):

	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 228,255	\$ 217,599
Employee benefits	52,378	49,645
Supplies and services	96,592	98,645
Depreciation	6,537	7,072
Scholarships and fellowships	44,493	42,707
Total	<u>\$ 428,255</u>	<u>\$ 415,668</u>

9. Retirement Plan

University personnel participate in a contributory retirement plan administered by the University. The University of Louisville 403(b) Retirement Plan (Retirement Plan) was established by the University and approved by the Board of Trustees. Permanent, full-time employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. Eligible employees not contributing to the Retirement Plan are entitled to a 7.5% of base salary contribution on their behalf by the University. The University also matches up to an additional 2.5% of employee contributions. The Retirement Plan requires three years of continuous service for employees to vest in employer contributions.

The Research Foundation recorded expenses related to the defined contribution plan of approximately \$14.8 million and \$14.0 million during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Research Foundation had no outstanding liability related to the Retirement Plan.

10. 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, 2017, the following employees were covered by the benefit terms.

Inactive plan members	1,441
Active plan members	<u>5,546</u>
Total	<u><u>6,987</u></u>

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. The contribution requirements of the contributing members are determined by the University's management on an annual basis. During the years ended June 30, 2018 and 2017, the University contributed approximately \$3.3 million and \$3.0 million to the Plan, approximately 80% and 78% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$0.8 million and \$0.9 million, approximately 20% and 22% of total premiums for the years ended June 30, 2018 and 2017, respectively, through their required monthly contributions according to the schedules below:

	<b>2018</b>			
	<u>PPO</u>	<u>EPO</u>	<u>PCA High</u>	<u>PCA Low</u>
Employee	\$ 335	\$ 353	\$ 279	\$ 208
Employee and Spouse	\$ 763	\$ 851	\$ 583	\$ 451
	<b>2017</b>			
	<u>PPO</u>	<u>EPO</u>	<u>PCA High</u>	<u>PCA Low</u>
Employee	\$ 335	\$ 353	\$ 279	\$ 208
Employee and Spouse	\$ 763	\$ 851	\$ 583	\$ 451

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the years ended June 30, 2018 and 2017, the University contributed \$1.9 million and \$1.7 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, 2017. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.58%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	8.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 4.5% for 2026 and later years

The investment rate of return is shown as not applicable (NA) since the University contributes only the amount necessary to pay current benefits. The discount rate is 3.5% as of the Measurement Date, 2.85% as of the beginning of the Measurement Period.

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

	<b>Total OPEB Liability</b>
Balances at 6/30/2017	\$ 92,022
Changes for the year:	
Service cost	5,203
Interest	2,728
Differences between expected and actual experience	(2,608)
Changes of assumptions	(5,495)
Contributions - employer	-
Net investment income	-
Benefit payments	(3,007)
Administrative expense	-
Net Changes	<u>(3,179)</u>
Balances at 6/30/2018	<u>\$ 88,843</u>

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<b>1% Decrease (2.58)%</b>	<b>Discount Rate (3.58)%</b>	<b>1% Increase (4.58)%</b>
Net OPEB liability	\$ 96,468	\$ 88,843	\$ 81,909

The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (9.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 5.5% for 2026) than the current healthcare cost trend rate:

	<b>1% Decrease (7.1% decreasing to 3.5%)</b>	<b>Healthcare Cost Trend Rates (8.1% decreasing to 4.5%)</b>	<b>1% Increase (9.1% decreasing to 5.5%)</b>
Net OPEB liability	\$ 96,468	\$ 88,843	\$ 81,909

For the year ended June 30, 2018 the University recognized OPEB expense of \$6,985. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ (2,303)
Changes of assumptions	-	(4,854)
Contributions made in fiscal year ending 6/30/2018 after the measurement date of 6/30/2017	3,384	-
Total	<u>\$ 3,384</u>	<u>\$ (7,157)</u>

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

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

<u>Year ended June 30:</u>	
2019	\$ (947)
2020	(947)
2021	(947)
2022	(947)
2023	(947)
Thereafter	(2,422)

d. Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was \$88.8 million and \$92.0 million and there were no assets, resulting in an unfunded net OPEB liability of \$88.8 million and \$92.0 million as of June 30, 2018 and 2017, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$445.4 million and \$499.0 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 19%, for the years ended June 30, 2018 and 2017, 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, 2017, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.1 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2018 and 2017 were due to updates made on expected future health claims and an increase in the discount rate from 2.85 as of the beginning of the reporting year to 3.58% as of the measurement date.

## 11. Commitments and Contingencies

a. Commitments

At June 30, 2018 and 2017, respectively, the Research Foundation had approximately \$1.0 million and \$4.4 million in encumbrance's outstanding related mainly to operational expenses for future expenditures.

b. Litigation

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

c. Government Grants

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



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

	<b>6/30/2018</b>
<b>Total OPEB liability</b>	
Service Cost	\$ 5,203
Interest	2,728
Difference between expected and actual experience	(2,608)
Changes of assumption	(5,495)
Benefit payments	(3,007)
Net change in OPEB Liablility	\$ (3,179)
OPEB liability - beginning of year	92,022
OPEB liability - end of year	\$ 88,843
Covered employee payroll	\$ 445,356
Total OPEB liability as a percentage of covered employee payroll	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.