UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Louisville and Affiliated Corporations (the University), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of Louisville Physicians, Inc. (ULP), the University Medical Center, Inc. (UMC), the University of Louisville Real Estate Foundation, Inc. (ULREF) and University of Louisville Foundation, Inc. and Affiliates (the Foundation), which comprise the aggregate discretely presented component units of the University. Those statements were audited by other auditors whose reports thereon have been provided to us, and our opinion on the financial statements, insofar as it relates to the amounts included for ULP, UMC, ULREF and the Foundation is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of ULP, ULREF and the Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2018, 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.

Emphasis of Matter

During fiscal year ended June 30, 2018, the University 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 University 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 University 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, Analysis on pages 4 through 18 and the Post-employment Benefit Information on page 91 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the University of Louisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University of Louisville's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Louisville's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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 and Affiliated Corporations (the University) for the years ended June 30, 2018 and 2017. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association (Association). This discussion contains highly summarized data and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Using the Financial Statements

The University's financial report includes three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. These financial statements have been prepared by University management in accordance with the Governmental Accounting Standards Board (GASB) principles.

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University at fiscal year-end, June 30, 2018, 2017, and 2016. Net position (the difference between assets, liabilities, deferred outflows of resources, and deferred inflows of resources) provides a snapshot of the current financial condition of the University at the end of a fiscal year. Items on the Statements of Net Position are generally measured using current values.

The Statements of Revenues, Expenses, and Changes in Net Position present the total revenues earned and expenses incurred by the University during each of the fiscal years. The statements depict the major revenue streams of the University and expense categories supported by that revenue. Changes in net position indicate whether the University has accumulated or consumed resources during the periods reported.

The Statements of Cash Flows present cash inflows and outflows for each fiscal year. The statement reports major sources and uses of cash and assists with the assessment of the University's ability to meet cash obligations when due.

Please refer to footnote 1 for a summary of significant accounting policies.

Financial Highlights

- The University's financial position remains strong at June 30, 2018, with total assets and deferred outflows of resources of $1.3 billion that exceed total liabilities and deferred inflows of resources of $597.4 million by a ratio of over 2:1, consistent with the ratio as of June 30, 2017. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted was $707.7 million as of June 30, 2018.
- Net position grew by a modest $3.0 million during the year. Unrestricted net position moved to a deficit position in 2018 due to the implementation of adopted GASB No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* GASB 75 as discussed in the notes to financial statements. This reduction in unrestricted net position was offset by appropriations for the acquisition and construction of capital assets.

- Gross tuition and fees were $310.1 million for the year ended June 30, 2018, a decrease of $1.4 million, or 0.5% compared to the $311.6 million reported in the previous year. Overall demand remains strong for the University of Louisville despite national trends to the contrary.
- Total general fund appropriations from the Commonwealth of Kentucky were $133.0 million for the year. State appropriations were down about $1.5 million due to statewide budget cuts in higher education and other areas to offset the impact of the underfunded pension obligation in the Commonwealth of Kentucky.
- Operating revenues amounted to $717.3 million and operating expenses were $1.0 billion resulting in a net operating loss of $315.8 million. When adjusted for $133.0 million in state appropriations and $185.9 million in other net nonoperating revenues, net position of the University increased by $3.0 million for the year ended June 30, 2018. The separation from KentuckyOne Health, Inc. (KOH) as described in the notes to the financial statements was the primary reason for the significant change in operating revenues. Clinical revenues of $65.8 million in 2017 and other operating revenues of $24.4 million in 2017 are related to the KOH separation.
- Operating expenses decreased from $1,071 million to $1,033 million in 2017 and 2018, respectively, despite many one-time and non-recurring charges in 2018. The University had a campus wide focus on reduction in spending that was very effective in the areas of supplies and salaries and wages. The separation from KOH also involved the planned spending of $13.2 million in 2018, which offset some of the other savings realized across campus during 2018. Operating expenses in 2018 also include the settlement of a contractual obligation to the former athletic director of $4.5 million and the buy-out of a coaching contract to obtain a new coach totaling about $5.5 million.
- During the year ended June 30, 2018, the University adopted (GASB 75). This standard establishes the criteria for recognizing and measuring liabilities, deferred outflows, deferred inflows and expense related to other postemployment benefits (OPEB) provided to employees of state and local governments. The adoption of this Standard moved the unrestricted net position to a deficit balance.

Overview – Fiscal Year Ended June 30, 2018

The following is a brief discussion of events during fiscal year 2018 that had substantial or multiple impacts on the financial performance and position of the University:

- The University was able to create permanence in several key leadership positions during 2018 that were previously either vacant or filled through interim appointments.
- Following a competitive negotiation process the University (on behalf of the Commonwealth) and University Medical Center (UMC) entered into a lease of the University of Louisville Hospital (Hospital), an academic affiliation agreement (AAA), and a joint operating agreement (JOA), for the operation of the Hospital. The current JOA with (KOH) ended effective June 30, 2017, and UMC returned to the management of the hospital. The University and KOH agreed to work to reach agreement on a new AAA for University programs at Frazier Rehab Institute (Frazier) and Jewish Hospital (Jewish).

- The University and KOH jointly agreed to the terms of an amended AAA under which KOH would fund 51 FTE resident positions at Jewish and 5 FTE resident positions at Frazier taking into account staffing at comparable healthcare facilities, services provided at Jewish and Frazier and the clinical volume, provided that funding would not be less than $6.3 million during the term without prior written consent of the University. The term of the agreement will be for a period of 18 months through December 31, 2018.

- The University, KOH and University of Louisville Physicians (ULP) are parties to an amended Master Support and Services Agreement, effective July 1, 2017, which sets out KOH's financial commitment to support the academic and clinical programs at the University as well as the parties mutual obligations related to the programs. An amendment to the agreement extended the term through December 31, 2018.

- Capital Projects – During fiscal 2018, progress was made on an expansion and renovation of the Swain Student Activities Center, an expansion of Cardinal Stadium, and new construction of an academic building on Belknap Campus. All three of these facilities opened Fall 2018. Construction began on a new television production studio which was a requirement of joining the Atlantic Coast conference (ACC).

- New Concession Agreements – The University entered into a 13-year service concession agreement with Cannon for the operation of copy centers. The agreement had the effect of increasing short and long-term accounts receivable and deferred inflows.

Statements of Net Position

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
ASSETS					
Current assets	$ 194,090	$ 215,791	$ 258,194	$ (21,701)	$ (42,403)
Long-term investments	1,360	1,560	1,988	(200)	(428)
Capital assets, net	971,395	891,944	868,398	79,451	23,546
Other	128,582	175,801	97,248	(47,219)	78,553
Total assets	1,295,427	1,285,096	1,225,828	10,331	59,268
DEFERRED OUTFLOWS OF RESOURCES	9,680	7,412	6,967	2,268	445
LIABILITIES					
Current liabilities	173,287	171,923	187,106	1,364	(15,183)
Noncurrent liabilities	362,856	322,935	326,023	39,921	(3,088)
Total liabilities	536,143	494,858	513,129	41,285	(18,271)
DEFERRED INFLOWS OF RESOURCES	61,275	49,436	175	11,839	49,261
NET POSITION					
Net investment in capital assets	701,024	660,316	632,787	40,708	27,529
Restricted-nonexpendable	1,633	1,633	1,633	-	-
Restricted-expendable	79,622	84,825	92,009	(5,203)	(7,184)
Unrestricted	(74,590)	1,440	(6,938)	(76,030)	8,378
Total net position	$ 707,689	$ 748,214	$ 719,491	$ (40,525)	$ 28,723

Assets

Current Assets consist primarily of cash; loans, accounts and contributions receivable; and due from affiliates and investments held with University of Louisville Foundation, Inc. (Foundation).

In fiscal year 2018, current assets decreased $21.7 million due primarily to an $11.4 million reduction in investments held with the Foundation, and a $10.0 million decrease in due from affiliates. Unrestricted cash increased by $4.2 million to $80.8 million during 2018. The change in unrestricted cash ended positive despite the planned spending of unrestricted KOH funds of $14.5 million during 2018. Investments held with the Foundation were liquidated in 2018 to provide funding to pay deferred compensation owed to the former athletic director upon his separation from the University of $4.5 million, a settlement with the NCAA upon conclusion of an investigation into the men's basketball team of $563 thousand and a buy-out of contractual obligations for the new men's basketball coach of $5.5 million including taxes. Due from affiliates decreased $10.0 million due to a stream-lined process to receive funding from the Foundation. Inventories were up by $2.5 million to $3.3 million due to Athletic inventories received by the Association related to the new contract with Adidas.

In fiscal year 2017, current assets decreased $42.4 million, due to a $47.1 million reduction in unrestricted cash and cash equivalents, partially offset by an $11.3 million increase in due from affiliates. Reduction in cash was a result of a change in Foundation funding mechanics and normal operations.

Capital assets, net of accumulated depreciation, represented 75% of total assets as of June 30, 2018. Noncurrent loans, accounts and contributions receivable, restricted cash and cash equivalents, and due from the Foundation comprise the remainder of assets.

Noncurrent assets increased $32.0 million in fiscal 2018 driven by construction and related financing. Capital assets, net increased $79.5 million due mainly to the construction projects already discussed. Offsetting this increase is restricted cash and cash equivalents that decreased $26.9 million due to progress payments to contractors on construction projects, loans, accounts and contributions receivable that decreased $11.7 million, mainly due to the collection of pledges of the Association and for the write-off of a $5.0 million hospital rent receivable under an amended and restated hospital lease with UMC. Due from affiliates decreased $10.0 million for repayment from the University of Louisville Real Estate Foundation (ULREF) of approximately $3.5 million relating to a loan from the University to fund certain real estate purchases and for $5.0 million received from UMC relating to an accounts receivable assigned to the University during negotiations to dissolve the AAA with KOH.

Noncurrent assets increased $101.7 million in fiscal 2017 driven by construction and related financing. Restricted cash and cash equivalents increased $34.7 million for construction bond proceeds. Capital assets increased $23.5 million. Long-term accounts and contributions receivable increased $28.3 million for a $25.7 million receivable related to a new foodservice concession arrangement. Due from affiliates increased $14.6 million mainly due to a $23.9 million new receivable from UMC, partially offset by the write-off of a $10.4 million receivable from the Foundation related to an underperforming tax increment financing project.

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, OPEB paid after the actuarial measurement date but before fiscal year end to be expensed in the new year, as well as the fair value of an interest rate swap agreement.

In fiscal year 2018, deferred outflows increased $2.3 million mainly due to amortization of deferred loss on bond refinance of $1.1 million offset by an increase during 2018 totaling $3.0 million in the amount of OPEB paid after the actuarial measurement date and recorded as a deferred outflow. An interest rate swap recognized as a deferred outflow decreased $19 thousand for the increase in the value of the derivative.

The $0.4 million increase in Deferred Outflows of Resources reflects the addition of a $1.7 million loss on refinancing related to the defeasance of Series 2008A and 2008B bonds during fiscal year 2017, offset by an increase in the fair market value of an interest rate swap agreement of $0.4 million (which has the effect of reducing deferred outflows of resources), and amortization of prior losses on refinance of $0.8 million. In fiscal year 2017 the University issued General Receipts Refunding Bonds 2016 Series F (2016 Series F) to refinance Metro Government Bonds Series 2008A and 2008B.

Liabilities

Accounts payable and accrued liabilities and advances comprise 87% of total current liabilities. Current liabilities increased $1.4 million in fiscal year 2018, primarily due to the $7.5 million increase in accounts payable partially offset by the decrease of $5.7 million in the current portion of bonds and notes payable. Accounts payable increase relates principally to construction projects of the University and the Association. The current portion of bonds and notes payable decreased because of the refinancing of the $10.7 million term loan, reflected as current at June 30, 2017.

In fiscal year 2017, the $15.2 million decrease in current liabilities was principally due to the recognition into revenue of approximately $21.0 million in advances from KOH partially offset by a restated increase in accounts payable of $3.9 million.

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. The $39.9 million increase in noncurrent liabilities in fiscal year 2018 primarily included a $3.9 million decrease in bonds and notes payable, a $45.0 million increase in other long-term liabilities, and a $2.5 million decrease in deferred compensation and wages payable. The decrease in bonds and notes payable was due to normal amortization of the liability offset by the issuance of a master lease totaling $7.2 million for the construction of a TV production studio and for the change in classification to noncurrent of $6.6 million of the term loan due to the refinancing of the loan. The increase in other long-term liabilities relates to the adoption of GASB 75 as disclosed in the notes to the financial statements. The decrease in deferred compensation and wages payable is the result of the payout of benefits to employees of the Association.

In fiscal year 2017, the $3.1 million decrease in noncurrent liabilities includes an increase in long-term debt of $24.2 million associated with the Cardinal Stadium construction, partially offset by advances which decreased $29.2 million as KOH advances are taken into revenue.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. In fiscal year 2018 the University recognized an increase of $4.5 million deferred inflows to reflect future receipts related to foodservice and bookstore concession arrangements with Aramark and Follett, respectively and a new copy center concession arrangement with Cannon. Deferred inflows increased $7.2 million related to a change in actuarial assumptions and the difference between expected and actual experience used in the calculation of the OPEB liability. It will be amortized to OPEB expense over a period equal to the average of the expected remaining service lives of all employees that are provided benefits. The fair market value of an interest rate swap increased to $184 thousand to reflect the positive change in value of the instrument. As the derivative is considered an effective hedging instrument changes in value are recognized as deferred inflows and outflows.

In fiscal year 2017 the University recorded $49.4 million deferred inflows to reflect future receipts related to new foodservice and bookstore concession arrangements with Aramark and Follett, respectively. Alternately, the fair market value of a prior forward delivery contract for the investment of Association debt service reserves was reduced from $175,000 to $-0- when the associated debt was retired in December.

Net Position

The University's net position is summarized into four major categories in accordance with GASB Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* reporting requirements as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as follows:

- *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.

- *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.

- *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.

- *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.

In fiscal year 2018, net position increased $3.0 million. Operating loss increased to $315.8 million, an increase of $48.4 million as compared to June 30, 2017. The increased operating loss is principally due to clinical revenues recognized in 2017 related to the cancellation of the AAA with KOH which were non-recurring offset by savings in operating expenses that include salaries, wages, benefits and supplies. State appropriations of $133.0 million and other nonoperating revenues of $185.9 million just offset the operating loss producing an increase in net position totaling $3.0 million. Revenue from contributions from the Foundation improved, increasing $17.2 million due to a change in the way the University received funding and therefore recognized revenue beginning in 2017. In fiscal year 2017 the Foundation adopted an in-arrears funding mechanism with reimbursements beginning only after approximately $20 million in cash reserves were utilized. Capital appropriations increased $22.4 million principally related to the construction of an Academic Building and for improvements to Floyd Street on Belknap Campus. Offsetting the increase in capital appropriations, capital gifts that are mainly related to construction projects of the Association decreased $16.6 million due to the completion of fund raising related to a 3rd expansion of Cardinal Stadium.

In fiscal year 2017, Total Net Position increased $28.7 million as compared to an increase of $12.9 million for June 30, 2016. The University's operating loss narrowed by $33.6 million as operating revenues increased more than operating expenses, in large part due to Advances from KOH being taken into revenue as the AAA ended. Appropriations and gifts associated with capital projects increased $19.3 million related to three construction projects. Contributions from University of Louisville Foundation decreased $40.0 million due to a small, planned reduction in endowment and gift support as well as a change in funding mechanics.

Operating expenses for fiscal year 2017 increased by $59.7 million (6%) including $16.0 million in institutional support and $19.2 million in public service. The increase in institutional support is a result of the write-off of a $10.4 million due from affiliate for tiff revenue determined to be uncollectible. Public service increased due to expense increases in programs funded under the academic affiliation agreement with Kentucky One.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
OPERATING REVENUES					
Student tuition and fees, net	$ 217,395	$ 221,626	$ 209,503	$ (4,231)	$ 12,123
Clinical services and practice plan	262,013	335,065	269,420	(73,052)	65,645
Grants and contracts	98,271	90,158	103,417	8,113	(13,259)
Facilities and administrative cost recoveries	27,035	25,064	24,611	1,971	453
Other	112,605	132,149	103,831	(19,544)	28,318
Total operating revenues	717,319	804,062	710,782	(86,743)	93,280
OPERATING EXPENSES					
Depreciation	48,780	48,503	51,295	277	(2,792)
Other	984,386	1,023,034	960,583	(38,648)	62,451
Total operating expenses	1,033,166	1,071,537	1,011,878	(38,371)	59,659
NONOPERATING REVENUES (EXPENSES)					
State appropriations	132,959	134,508	142,213	(1,549)	(7,705)
Other nonoperating revenues	185,971	161,690	171,794	24,281	(10,104)
Total nonoperating revenues	318,930	296,198	314,007	22,732	(17,809)
Increase/(decrease) in net position	3,083	28,723	12,911	(25,640)	15,812
Net position - beginning of year	748,214	719,491	706,580	28,723	12,911
Cumulative effect of change in accounting principle	(43,608)	-	-	-	-
Net position - beginning of year	704,606	719,491	706,580	(14,885)	12,911
Net position - end of year	$ 707,689	$ 748,214	$ 719,491	$ (40,525)	$ 28,723

Operating Revenues

Revenues from tuition, clinical services, and certain grants and contracts are classified as operating revenues as defined by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. While still an important source of support for University academic programs, other revenue sources, such as state appropriations and contributions from Foundation are considered non-operating revenues.

Student tuition and fees, net of allowances for scholarships and fellowships were $217.4 million and $221.6 million, or 30% and 28% of total operating revenues for the years ended June 30, 2018 and 2017, respectively. The University adopted a 5% gross tuition rate increase in June 30, 2017, and no change in tuition rates for 2018. Rates of scholarship and fellowship assistance provided by the University generally change at the same rate as tuition, though the types and number of students accepting financial aid can vary. In fiscal 2018, scholarship and financial aid expense was slightly higher than the prior year and a factor in an overall $4.2 million or 2% decrease in net tuition revenue. In fiscal year 2017, scholarship and financial aid expense was slightly lower than the prior year. This and increased demand resulted in increased tuition for 2017 of $12.1 million and an overall 6.0% increase in net tuition revenue.

Clinical services and practice plan revenue amounted to $262.0 million and $335.1 million, or 37% and 42% of total operating revenues for fiscal years 2018 and 2017, respectively. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. The decrease in revenue for 2018 totaling $73.1 million or 22% resulted from the buyout of the AAA with KOH in fiscal year 2017 and the renegotiation of the hospital lease dated July 1, 2017. Strategic programming revenues from an AAA with KOH has contributed approximately 35% of the growth in clinical revenues over fiscal year ended June 30, 2016.

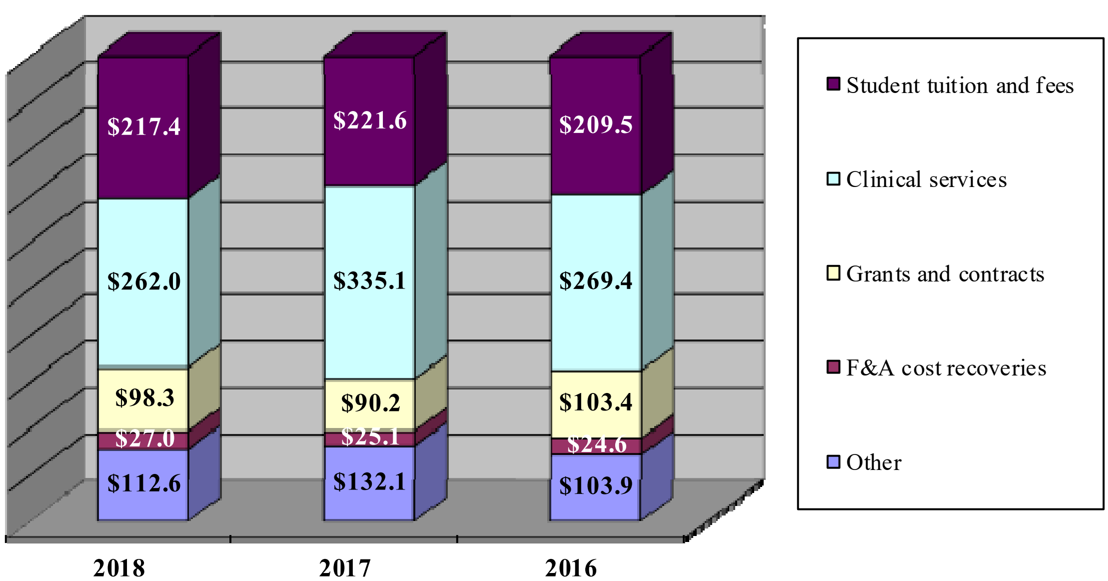
Revenue from grants and contracts were $98.3 million and $90.2 million for the years ended June 30, 2018 and 2017, respectively. This increase reflects improved revenue from Federal and nongovernmental sources. Changes in revenue can also reflect timing of start-up or reimbursement of expenses. During 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.

The University's contracts from government and private sources normally provide for the recovery of indirect or overhead costs. Facilities and administrative (F&A) cost recoveries were $27.0 million and $25.1 million for the years ended June 30, 2018 and 2017, respectively. F&A cost recovery revenues generally follow the trend in direct cost revenues and expenditures.

Other operating revenue decreased $19.5 million in fiscal year 2018. This primarily related to the transfer to the University of an obligation in fiscal year 2017 of $24.4 million that UMC, the University teaching hospital, had to KOH until the dissolution of the AAA which is considered revenue to the University.

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, 2018, 2017, and 2016 (in millions):

Operating Revenues
Years ended June 30, 2018, 2017, and 2016

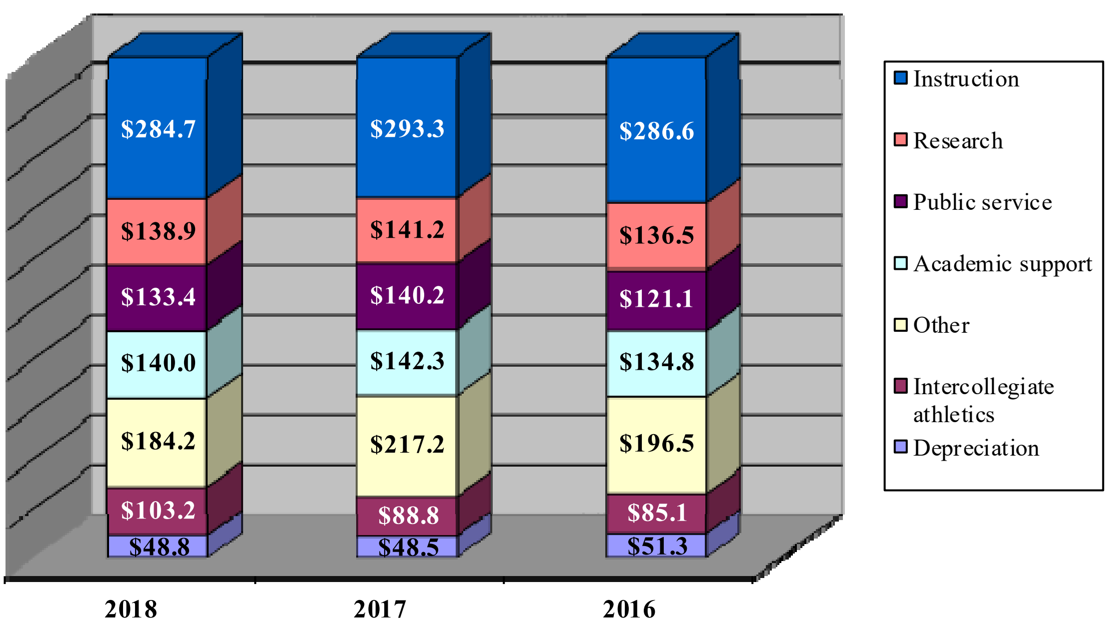


Operating Expenses

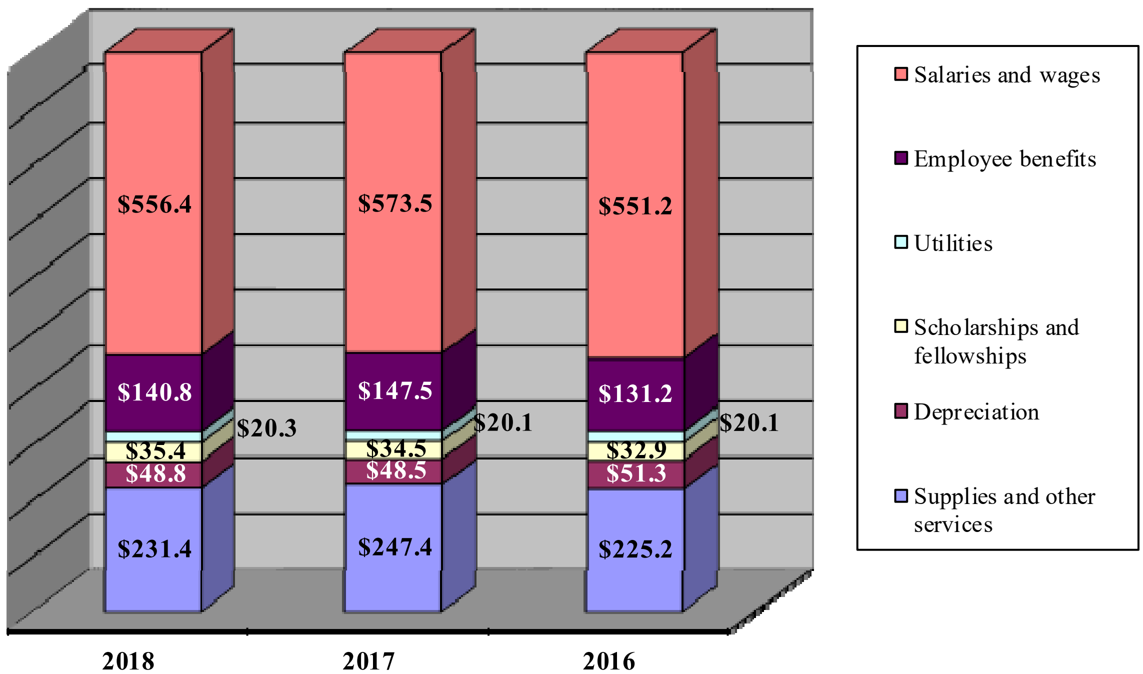
Operating expenses were $1.0 billion and $1.1 billion and exceeded operating revenues by $318.9 million and $267.5 million for the years ended June 30, 2018 and 2017, respectively. In fiscal 2018, operating expenses decreased $38.4 million or 3.6%. Among functional classifications, public service decreased $6.8 million, mainly due to a $10.7 million decrease in hospital programs funded by KOH under the AAA, and institutional support decreased $22.7 million including a $10.4 million write-off during 2017 of a receivable for an underperforming tax increment financing project. Intercollegiate athletics increased by $14.4 million due primarily to payout of a deferred compensation obligation upon separation with its former athletic director of $4.5 million and buy-out of a contract in connection with hiring a new coach totaling $5.5 million including taxes. Overall operating expenses were reduced during 2018 due to a $17.0 million reduction in salaries and wages and an $18.0 million reduction in supplies. Both reductions were part of university-wide efforts during 2018 to reduce manageable spend.

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2018, 2017, and 2016 (in millions) are summarized as follows and on the following page:

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



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



Nonoperating Revenues (Expenses)

In fiscal year 2018 net nonoperating revenues and other revenues increased $22.7 million including $14.7 million in contributions from the Foundation, $2.5 million in decreased contributions to the ULREF, and $22.4 million in capital appropriations reduced by a decrease in capital gifts totaling $16.6 million. The increase in contributions from the Foundation was due to fact that the funding mechanism changed for 2017 thus also changing the way the university recognized revenue on these contributions. In years prior to 2017, the University recognized these revenues as received whereas in subsequent years such revenues were recognized as spending occurred. The University was not able to request any funding from the Foundation in 2017 until reserves of $20 million were spent. Capital appropriations recognized include appropriations for the Academic Building of $34.4 million and $18.3 million during 2018 and 2017, respectively. Capital appropriations also includes $9.6 million received in 2018 and $3.3 million received in 2017 to complete improvements to Floyd Street. The decrease in capital gifts relates to timing of the construction projects of the Association for its Stadium expansion.

Net nonoperating revenues and other revenues decreased $17.8 million in fiscal 2017, primarily due to reduced State Appropriations and Contributions from University of Louisville Foundation as described above. State appropriations decreased $7.7 million in fiscal 2017, slightly more than expected. Contributions from the Foundation were down $40.0 million in fiscal 2017 as a result of a change in funding mechanics. The University received and recorded as revenue from the Foundation approximately $20.0 million in fiscal 2016 in advance of related expenses. In fiscal 2017, the Foundation adopted an in-arrears funding mechanism with reimbursements beginning after the $20 million cash reserves were utilized. Nonoperating revenue decreases were partially offset by a $7.4 million increase in capital gifts related to construction projects of the Association and $11.9 million increase in capital appropriations related to three construction projects underway on campus.

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, 2018, 2017, and 2016 are summarized below:

Condensed Statements of Cash Flows
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
Cash (used)/provided by:					
Operating activities	$ (248,014)	$ (261,736)	$ (251,278)	$ 13,722	$ (10,458)
Noncapital financing activities	305,917	254,591	290,621	51,326	(36,030)
Capital and related financing activities	(86,364)	(15,058)	(53,059)	(71,306)	38,001
Investing activities	5,740	9,730	16,523	(3,990)	(6,793)
Net (decrease)/increase in cash and cash equivalents	(22,721)	(12,473)	2,807	(10,248)	(15,280)
Cash and cash equivalents, beginning of year	139,376	151,849	149,042	(12,473)	2,807
Cash and cash equivalents, end of year	$ 116,655	$ 139,376	$ 151,849	$ (22,721)	$ (12,473)

Total cash and cash equivalents decreased by $22.7 million during 2018. Cash used in operations decreased by $13.7 million during 2018 to $248 million. Cash provided by clinical services and practice plan went from $280.4 million to $267.8 million. The $12.6 million reduction in clinical services was due to an infusion of $37.4 million in strategic funds received in connection with the termination of the AAA with KOH. Payments to suppliers and payments to employees decreased by $10.4 million and $3.5 million due to university wide cost savings initiatives put in place during 2018 to reduce spending. The reductions realized to suppliers and employees were much greater after consideration 2018 of planned spending of $14.5 million of the strategic funds received in 2017. Intercollegiate athletics provided $10.3 million more in operating cash primarily because of increased receipts during 2018.

Cash provided by noncapital financing activities increased $51.3 million. A change in Foundation funding mechanics resulted in $49.7 million more contributions from related entities during the year together with $6.6 million increased cash from gifts and grants partially offset by $4.3 million lower state appropriations. Transfers of gift and endowment funding was being withheld until cash reserves of approximately $20.0 million could be exhausted in 2017. Cash from gifts relates to the collection of pledges of the Association.

The University consumed $86.4 million in cash for capital and related financing, $71.3 million more than prior year. Purchases of Capital Assets increased $37.9 million in fiscal 2018 as the University engaged in three major construction projects. Debt for refinancing and capital projects continued at a slower pace in fiscal 2018 compared to the prior year with $69.7 million lower proceeds from debt. Offsetting these cash uses, cash used for principal repayments decreased $32.8 million. Cash provided by Capital Appropriations and Capital Gifts increased $11.6 million during the year due to timing of construction projects.

Investing activities produced $5.7 million in cash during fiscal year 2018, $4.0 million less than fiscal 2017. Proceeds from maturing investments of $2.9 million were supplemented by cash from investment earnings totaling $2.6 million.

Total Cash and Cash Equivalents decreased by $12.5 million during fiscal year 2017. Operating activities consumed $10.5 million more cash during the year compared to prior year. Notably increased receipts included $11.4 million clinical receipts, $13.9 million auxiliary receipts, and $7.4 million higher receipts for research grants and contracts. These sources of cash were more than offset by payments to employees and payments for benefits of $27.0 million and payments to suppliers of $20.9 million.

Lower cash provided by noncapital financing activity receipts related to a change in Foundation funding mechanics which resulted in $33.1 million lower cash from contribution from the Foundation during the year together with $2.2 million lower state appropriations.

The University consumed $15.1 million in cash for capital and related financing, $38.0 million less than prior year. Cash used for principal repayments decreased $44.5 million. Interest payments were also favorable by $3.9 million compared to prior year. Cash provided by capital appropriations and capital gifts increased $13.0 million during the year. Offsetting these cash sources, purchases of Capital Assets increased $21.0 million in fiscal 2017 as the University engaged in three construction projects. Debt refinancing continued at a slower pace in fiscal 2017 compared to prior year with $13.0 million lower proceeds from the issuance of debt.

Investing activities produced $9.7 million in cash during fiscal year 2017, $6.8 million less than fiscal 2016. Lower proceeds from maturing investments were slightly offset by lower purchases of new investments.

Capital Asset and Debt Administration

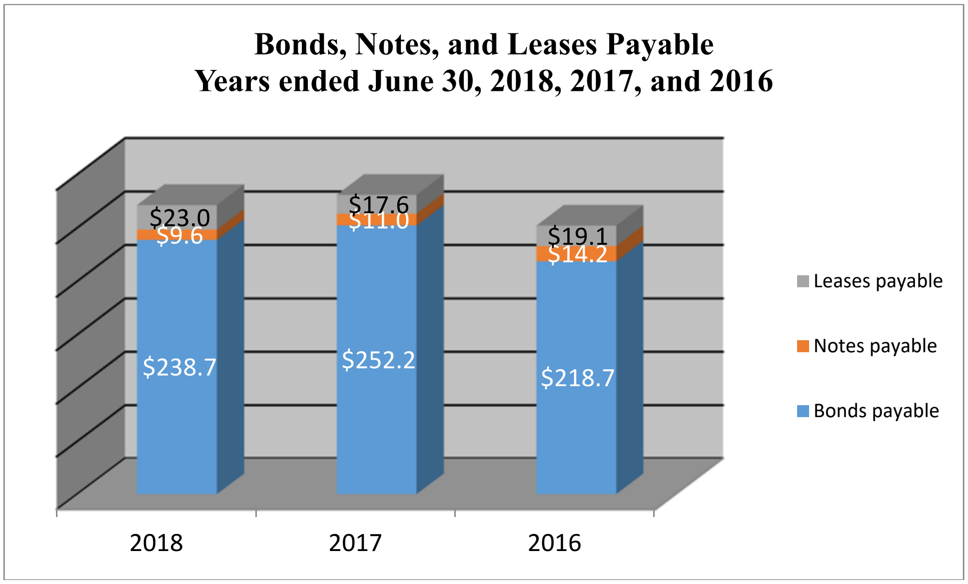
The University continues to invest in new and renovated facilities to meet the needs of students, faculty and staff. Significant projects completed, in process and approved but not started are listed below.

COMPLETED IN 2018		
Cardinal Arena Renovation	$	369,400
COMPLETED IN 2017		
MDR Building Masonry Restoration	$	1,288,000
Ekstrom Library 3rd Floor Delphi Renovation		2,750,000
Thornton Academic Center @ PJCS		19,300,000
Baxter I Supplemental Chiller		617,000
Ekstrom Delphi HVAC Upgrade		550,000
Donald Baxter Building Cardiology GMP Facility		2,079,000
IN PROGRESS OR APPROVED AND NOT STARTED		
Belknap Classroom Building	$	83,560,000
Student Activity Center Renovation		38,500,000
PJCS Stadium North End Zone Expansion		63,250,000
Vivarium Study		105,064
ULAA AV Production Studio		8,000,000
HSC Pediatric MOB		77,100,000
Ekstrom Library 3rd Floor Renovation		Programming
RRC Dock Modification		Programming

Debt and Financing Activities

At the end of fiscal year 2018, the University had outstanding $271.3 million of bonds, leases, and notes payable (inclusive of discounts/premiums) as compared to $280.8 million and $252.0 million in 2017 and 2016, respectively. The 2017 increase includes the issuance of General Receipts Bonds 2016 Series D, Series E, and Series F including funding $55.0 million of football stadium expansion cost and the refunding of Metro Government Series 2008 A and Series 2008 B bonds. The 2018 decrease represents the normal pay down of long term bonds partially offset by the issuance of master lease obligations totaling $7.2 million to fund the acquisition and construction of a TV production studio as required for entrance into the ACC.

Graphic illustrations of bonds, notes and leases payable for the years ended June 30, 2018, 2017, and 2016 (in millions) are summarized below:



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

Component Units

The University of Louisville Foundation, Inc. (Foundation), University of Louisville Real Estate Foundation, Inc. (ULREF), University of Louisville Physicians, Inc. (ULP), and University Medical Center, Inc. (UMC) are included as discretely presented component units of the University.

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 at June 30, 2018, were $172.3 million, a decrease of $6.7 million from the June 30, 2017 balance of $719.0 million.

The ULREF is a nonprofit corporation with the purpose to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University.

ULP is a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University's School of Medicine and maintains close financial and operational relationships with the University.

The UMC is a private nonprofit corporation that manages the operations of University Hospital.

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.

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 47th 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 ads an element of budgetary uncertainty for the university. Kentucky first implemented a performance-funding model in 2017. Under existing statue, 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 and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 80,839	$ 76,669
Deposit with bond trustee and escrow agent	-	47
Short-term investments	-	2,242
Loans, accounts and contributions receivable, net	72,105	77,023
Due from affiliate	13,560	23,602
Inventories	3,313	853
Investments held with University of Louisville Foundation, Inc.	13,884	25,280
Other assets	10,389	10,075
Total current assets	194,090	215,791
Noncurrent Assets		
Restricted cash and cash equivalents	35,816	62,707
Deposit with bond trustee and escrow agent	8,210	6,700
Loans, accounts and contributions receivable, net	60,016	71,748
Due from affiliate	24,293	34,333
Other long-term investments	1,360	1,560
Other long-term assets	247	313
Capital assets, net	971,395	891,944
Total noncurrent assets	1,101,337	1,069,305
Total assets	1,295,427	1,285,096
DEFERRED OUTFLOWS OF RESOURCES	9,680	7,412
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	102,399	94,869
Unearned compensation and wages payable	320	1,686
Advances	48,406	47,537
Bonds and notes payable	22,162	27,831
Total current liabilities	173,287	171,923
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	1,000	1,000
Unearned compensation and wages payable	2,201	4,688
Deposits	1,649	1,451
Advances	3,834	3,351
Amounts due to federal government for student loan programs	15,915	15,348
Other long-term liabilities	88,845	43,804
Bonds and notes payable	249,096	252,977
Total noncurrent liabilities	362,856	322,935
Total liabilities	536,143	494,858
DEFERRED INFLOWS OF RESOURCES	61,275	49,436
NET POSITION		
Net investment in capital assets	701,024	660,316
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,633	1,633
Expendable		
Scholarships and fellowships	2,914	1,263
Research	20,411	18,622
Instruction	6,396	6,272
Public service	12,554	12,922
Academic support	626	200
Institutional support	6,522	7,999
Loans	2,814	2,761
Capital projects	687	6,353
Debt service	26,698	28,433
Unrestricted	(74,590)	1,440
Total net position	$ 707,689	$ 748,214

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30			
		2018		2017
Assets				
Cash	**$**	**6,261**	$	8,632
Accounts and notes receivable, net		**5,626**		4,893
Loans receivable, net		**15,720**		15,720
Contributions receivable, net		**21,320**		25,935
Due from the University of Louisville Real Estate Foundation, Inc., net		**21,755**		24,080
Investments		**685,322**		682,922
Funds held in trust by others		**58,770**		55,293
Restricted investments		**5,242**		6,100
Prepaid expenses and other assets		**6,879**		7,500
Capital assets, net		**89,363**		93,987
Total assets	**$**	**916,258**	$	925,062
Liabilities and net assets				
Liabilities:				
Accounts payable	**$**	**1,730**	$	3,252
Unallocated gifts		**1,608**		1,335
Funds held in trust for others		**21,973**		33,757
Other liabilities		**12,307**		13,865
Bonds and notes payable		**81,301**		81,463
Due to the University of Louisville		**6,542**		18,256
Total liabilities		**125,461**		151,928
Net assets:				
Unrestricted		**3,763**		8,883
Temporarily restricted		**325,965**		308,513
Permanently restricted		**461,069**		455,738
Total net assets		**790,797**		773,134
Total liabilities and net assets	**$**	**916,258**	$	925,062

See notes to the financial statements

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	June 30 2018	June 30 2017
Assets		
Cash	**$ 2,295**	$ 6,182
Accounts receivable, net	**185**	455
Prepaids and other assets	**205**	198
Investments	**544**	5,997
Notes receivable	**–**	204
Investments in joint ventures	**6,721**	7,812
Tax incremental financing intangibles, net	**104,271**	108,634
In-place lease intangibles, net	**497**	747
Above-market lease intangibles, net	**2,523**	2,715
Capital assets, net	**100,100**	102,672
Total assets	**$ 217,341**	$ 235,616
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 527**	$ 679
Unearned ground lease revenue	**4,193**	4,297
Unearned grant revenue	**680**	1,244
Other liabilities	**306**	598
Below-market lease intangibles, net	**706**	984
Debt	**25,277**	35,747
Due to the University of Louisville	**6,275**	9,896
Due to the University of Louisville Foundation, Inc.	**26,223**	28,917
Total liabilities	**64,187**	82,362
Net assets:		
Unrestricted	**152,266**	152,259
Non-controlling interest	**888**	995
Total net assets	**153,154**	153,254
Total liabilities and net assets	**$ 217,341**	$ 235,616

See notes to the financial statements

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,466	$ 1,452
Assets limited as to use	-	-
Patient accounts receivable, less allowance for uncollectible accounts of $16,637 and $37,815 for 2018 and 2017, respectively	16,486	13,029
Receivables, related parties	5,765	2,248
Other receivables	417	2,599
Prepaid expenses and other current assets	2,088	2,449
Total current assets	31,222	21,777
Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG)	20,502	18,773
Property and equipment:		
Furniture, fixtures, and equipment	3,179	2,973
Leasehold improvements	1,451	1,445
Information technology	18,373	12,720
	23,003	17,138
Accumulated depreciation and amortization	(12,651)	(9,633)
Total property and equipment, net	10,352	7,505
Total assets	$ 62,076	$ 48,055
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable	$ 5,885	$ 7,631
Accrued payroll and related expenses	5,543	6,320
Line of credit	2,000	2,500
Current portion of capital lease obligations	-	615
Current portion accrual of University distributions (Dean's Tax)	1,210	-
Current portion of long-term debt	7,544	4,530
Total current liabilities	22,182	21,596
Long-term liabilities:		
Deferred gain on sale-leaseback of equipment	-	186
Long-term accrual of University distributions (Dean's Tax)	4,813	5,627
Long-term debt, net of current portion	19,531	12,750
Total long-term liabilities	24,344	18,563
Total liabilities	46,526	40,159
Net assets (deficit):		
Unrestricted:		
Net assets	10,123	1,193
Invested in property and equipment, net of related debt	5,427	6,703
Total net assets (deficit)	15,550	7,896
Total liabilities and net assets (deficit)	$ 62,076	$ 48,055

See notes to the financial statements

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

	2018
Current assets	
Cash and cash equivalents	$ 80,716,818
Net patient accounts receivable	68,907,143
Other accounts receivable	6,038,483
Current portion note receivable-related party	2,300,000
Related party receivable	1,975,474
Prepaid expenses and other	2,766,642
Inventory	12,957,457
Total current assets	175,662,017
Investments	138,201,999
Property and equipment, net	117,810,936
Other assets	
Investments in joint ventures	12,116,415
Long term portion of note receivable-related party	7,100,000
Other assets	2,527,249
Total other assets	21,743,664
Total noncurrent assets	277,756,599
Total assets	$ 453,418,616

See notes to the financial statements

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

LIABILITIES AND NET POSITION

	2018
Current liabilities	
Accounts payable and accrued expenses	$ 48,124,810
Related party payable	2,556,600
Accrued compensation and related accruals	16,812,729
Current portion of long-term debt	6,160,000
Estimated third-party payor settlements	140,017,077
Total current liabilities	213,671,216
Long-term debt - net of current portion	33,680,000
Other liabilities	
Self-insurance reserve and claims	554,796
Other liabilities	301,569
Total other liabilities	856,365
Total liabilities	248,207,581
Net Position	
Net invested in capital assets	97,370,936
Unrestricted	107,840,099
Total net position	205,211,035
Total liabilities and net position	$ 453,418,616

See notes to the 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
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $92,737 in 2018 and $89,937 in 2017	$ 217,395	$ 221,626
Clinical services and practice plan	262,013	335,065
Federal grants and contracts	72,316	68,788
State and local grants and contracts	8,191	8,603
Nongovernmental grants and contracts	17,764	12,767
Sales and services of educational departments	7,682	9,438
Facilities and administrative cost recoveries	27,035	25,064
Auxiliary enterprises, net of discount of $2,220 in 2018 and $2,138 in 2017	15,627	13,842
Intercollegiate athletics	76,491	72,756
Other operating revenues	12,805	36,113
Total operating revenues	717,319	804,062
OPERATING EXPENSES		
Instruction	284,691	293,306
Research	138,867	141,177
Public service	133,387	140,221
Academic support	139,970	142,253
Student services	28,150	31,942
Institutional support	71,478	94,167
Operation and maintenance of plant	45,089	51,404
Scholarships and fellowships	32,222	32,278
Auxiliary enterprises	7,377	7,443
Intercollegiate athletics	103,155	88,843
Depreciation and amortization	48,780	48,503
Total operating expenses	1,033,166	1,071,537
Operating loss	(315,847)	(267,475)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	132,959	134,508
Gifts	30,597	29,657
Nonexchange grants and contracts	46,349	44,629
Investment income	2,620	1,394
Realized and unrealized gain/(loss) on investments	136	106
Interest on capital asset-related debt	(10,789)	(8,900)
Other nonoperating revenues	5,082	5,798
Net nonoperating revenues	206,954	207,192
Loss before other revenues, expenses, gains and losses	(108,893)	(60,283)
Capital appropriations	43,975	21,608
Capital gifts	393	17,000
Contributions to Affiliate	-	(2,491)
Contributions from University of Louisville Foundation, Inc.	67,608	52,889
Total other revenues	111,976	89,006
Increase in net position	3,083	28,723
NET POSITION		
Net position - beginning of year	748,214	719,491
Cumulative effect of change in accounting principle	(43,608)	-
Net position - beginning of year, as restated	704,606	719,491
Net position - end of year	$ 707,689	$ 748,214

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

Years Ended June 30, 2018 and 2017
(In Thousands)

	Unrestricted		Temporarily Restricted		Permanently Restricted		Totals	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenues, gains and other support:								
Gifts	**$ 22,649**	$ 18,957	**$ 7,779**	$ 4,566	**$ 3,790**	$ 3,227	**$ 34,218**	$ 26,750
Net investment return	**20,242**	18,180	**37,162**	56,976	**–**	–	**57,404**	75,156
Changes in funds held in trust	**–**	–	**–**	–	**3,479**	5,647	**3,479**	5,647
Net rental revenues	**13,146**	12,751	**–**	–	**–**	–	**13,146**	12,751
Actuarial (loss) gain on annuity and trust obligations	**–**	–	**(449)**	32	**–**	–	**(449)**	32
Other gains	**–**	12,213	**–**	–	**–**	–	**–**	12,213
Other revenues	**3,349**	4,508	**–**	–	**–**	–	**3,349**	4,508
Net assets released from restrictions:	**26,556**	27,113	**(26,556)**	(27,168)	**–**	55	**–**	–
Total revenues, gains and other support	**85,942**	93,722	**17,936**	34,406	**7,269**	8,929	**111,147**	137,057
Expenses:								
Contributions and allocations to University of Louisville departments	**67,807**	52,236	**–**	–	**–**	–	**67,807**	52,236
Contributions (from) to the University of Louisville Real Estate Foundation, Inc.	**(12)**	1,130	**–**	–	**–**	–	**(12)**	1,130
Salaries	**3,770**	5,025	**–**	–	**–**	–	**3,770**	5,025
Utilities	**2,031**	1,970	**–**	–	**–**	–	**2,031**	1,970
General and administrative	**2,306**	5,093	**–**	–	**–**	–	**2,306**	5,093
Professional services	**3,479**	3,792	**–**	–	**–**	–	**3,479**	3,792
Repairs and maintenance	**2,505**	3,100	**–**	–	**–**	–	**2,505**	3,100
Depreciation and amortization	**4,744**	5,719	**–**	–	**–**	–	**4,744**	5,719
Interest expense	**3,383**	3,716	**–**	–	**–**	–	**3,383**	3,716
Other expenses	**1,049**	5,156	**–**	–	**–**	–	**1,049**	5,156
Total expenses	**91,062**	86,937	**–**	–	**–**	–	**91,062**	86,937
Loss (gain) on contributions receivable, net	**–**	1,200	**484**	3,304	**1,938**	2,709	**2,422**	7,213
Changes in net assets	**(5,120)**	5,585	**17,452**	31,102	**5,331**	6,220	**17,663**	42,907
Net assets, beginning of year	**8,883**	3,298	**308,513**	277,411	**455,738**	449,518	**773,134**	730,227
Net assets, end of year	**$ 3,763**	$ 8,883	**$ 325,965**	$ 308,513	**$ 461,069**	$ 455,738	**$ 790,797**	$ 773,134

See notes to the financial statements

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2018	2017
Revenues, gains, and other support:		
Rental revenue	**$ 4,410**	$ 4,393
Gift revenues	**–**	269
Contributions	**–**	1,173
Net investment return	**78**	259
Tax incremental financing revenues	**7,970**	6,388
Other revenue	**1,284**	1,603
Total revenues, gains, and other support	**13,742**	14,085
Expenses:		
Contribution expense	**2,150**	1,071
Salaries	**169**	710
General and administrative	**708**	1,253
Professional services	**1,380**	1,721
Utilities	**681**	721
Repairs and maintenance	**692**	936
Depreciation and amortization	**6,530**	7,279
Interest expense	**1,357**	1,071
Property taxes	**68**	539
Other expenses	**–**	228
Total expenses	**13,735**	15,529
Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc.	**7**	(1,444)
Change from non-controlling interest	**(107)**	18
Total change in net assets	**(100)**	(1,426)
Net assets, beginning of year	**153,254**	154,680
Net assets, end of year	**$ 153,154**	$ 153,254

See notes to the financial statements

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.
Statements of Activities
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 163,889	$ 146,450
Provision for bad debts	(51,589)	(39,833)
Net patient service revenue less provision for bad debts	112,300	106,617
University of Louisville	36,485	35,534
University Physicians Associates, Inc. (UPA)	398	178
Pediatric Medical Office Building, Inc. (PMOB)	151	-
Academic programmatic support - related parties	18,041	19,281
Academic programmatic support	3,394	3,348
Meaningful use income	693	2,230
Medical directorship	878	872
Other revenue	5,203	2,740
Gain on investment in KMRRRG	1,729	2,290
Interest income	373	153
Total unrestricted revenues, gains, and other support	179,645	173,243
Expenses:		
Program services	145,347	141,518
Management and general	26,644	27,551
Total expenses	171,991	169,069
Change in net deficit	7,654	4,174
Net deficit, beginning of year	7,896	3,722
Net assets (deficit), end of year	$ 15,550	$ 7,896

See notes to the financial statements

UNIVERSITY MEDICAL CENTER, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

		2018
Operating revenues		
Net patient service revenue	$	450,676,483
Other operating revenue		36,853,510
Total operating revenues		487,529,993
Operating expenses		
Salaries and wages		158,601,766
Employee benefits		33,750,542
Operating supplies		145,855,425
Professional services		62,391,671
Consultant fees		7,812,095
Purchased services		84,929,682
Insurance		3,070,133
Depreciation and amortization		18,304,201
Rental and maintenance		21,174,767
Utilities		6,665,155
Provider tax		7,264,016
Other operating expense		4,355,919
Total operating expenses		554,175,372
Operating loss		(66,645,379)
Other income (expenses)		
Interest expense		(417,000)
Investment income		1,505,969
Other expense		(7,289,366)
Total other income (expenses)		(6,200,397)
Change in net position		(72,845,776)
Net position - beginning of year		278,056,811
Net position - end of year	$	205,211,035

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 218,832	$ 219,318
Clinical services and practice plan	267,772	280,413
Grants and contracts	100,311	101,682
Sales and services of educational departments	7,600	12,412
Payments to suppliers	(237,353)	(245,933)
Payments for utilities	(19,571)	(19,842)
Payments to employees	(563,606)	(567,080)
Payments for benefits	(137,460)	(136,053)
Payments for scholarships and fellowships	(34,428)	(34,743)
Loans issued to students and employees	(383)	(1,055)
Auxiliary enterprises	30,071	25,431
Facilities and administrative cost recoveries	27,035	25,064
Intercollegiate athletics	78,379	68,082
Other receipts	14,787	10,568
Net cash used by operating activities	(248,014)	(261,736)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	132,959	137,290
Gifts	35,238	28,678
Nonexchange grants and contracts	46,349	44,628
Contributions from related entities	89,535	39,838
Contributions to related entities	-	-
Other noncapital financing activities	1,836	4,157
Net cash provided by noncapital financing activities	305,917	254,591
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	43,197	21,222
Capital gifts received	380	10,778
Purchases of capital assets	(109,694)	(71,775)
Proceeds from issuance of bonds and notes payables	16,826	86,564
Payments of issuance costs	-	(570)
Principal paid on bonds and notes payable	(24,208)	(57,003)
Interest paid on bonds and notes payable	(11,403)	(8,523)
Deposits with bond trustee and escrow agent	(1,462)	4,249
Net cash used by capital and related financing activities	(86,364)	(15,058)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,960	10,504
Purchase of investments	200	(2,333)
Interest on investments	2,580	1,559
Net cash provided by investing activities	5,740	9,730
Net increase/(decrease) in cash and cash equivalents	(22,721)	(12,473)
Cash and cash equivalents - beginning of year	139,376	151,849
Cash and cash equivalents - end of year	$ 116,655	$ 139,376

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (315,847)	$ (267,475)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	48,780	48,503
Loss on equipment disposals	130	2,037
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	7,993	(46,995)
Investments held with University of Louisville Foundation, Inc.	10,823	-
Inventories	149	30
Other assets	324	(323)
Other long-term assets	250	250
Accounts payable and accrued liabilities	(6,280)	5,562
Advances	2,775	(56,325)
Deposits	198	533
Due from Affiliates	(1)	1,814
Unearned compensation and wages payable	(3,853)	(3,543)
Other long-term liabilities	(1,666)	5,280
Deferred outflows of resources	(3,223)	-
Deferred inflows of resources	11,434	48,916
Net cash used by operating activities	$ (248,014)	$ (261,736)
Non cash transactions:		
Capital lease additions	$ 387	$ 373
Capital asset additions in accounts payable	$ 27,262	$ 9,739
Capital asset additions in other assets	$ 252	$ 30
Gifts of capital assets	$ 979	$ 380

See notes to the financial statements

University of Louisville and Affiliated Corporations

A Component Unit of the Commonwealth of Kentucky

Notes to Financial Statements

June 30, 2018 and 2017

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 Kentucky's largest city and is a component unit of the Commonwealth of Kentucky.

The University has three campuses. The Belknap Campus is three miles from downtown Louisville and houses eight of the University's twelve colleges and schools. The Health Sciences Center is situated in downtown Louisville's medical complex and houses the University's health related programs and the University of Louisville Hospital (Hospital). On the Shelby Campus, located in eastern Jefferson County, are the National Crime Prevention Institute, the Center for Predictive Medicine regional biosafety lab and the Division of Distance and Continuing Education. The University has also offered expanded campus courses at both off-site and international locations.

a. Basis of Presentation

The financial statements include the combined financial position and operations of the University, the University of Louisville Athletic Association, Inc., and the University of Louisville Research Foundation, Inc.. These affiliated corporations are included as blended component units since they are separate legal entities but are related through certain common management and trustees and exist exclusively for the benefit of the University:

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.

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the University reports the University of Louisville Foundation, Inc. (Foundation), the University of Louisville Real Estate Foundation, Inc. (ULREF), the University of Louisville Physicians, Inc. (ULP) and University Medical Center, Inc. (UMC) as discretely presented component units. Further descriptions of the Foundation, the ULREF, ULP and UMC may be found in footnote 20 Component Units.

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 financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues, expenses, changes in net position and cash flows.

The separate financial statements of the Association, the Research Foundation and the consolidated financial statements of the University can be found at the following:

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

b. Cash and Cash Equivalents

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

c. Deposits With Bond Trustee and Escrow Agent

Deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of $47 thousand, as of June 30, 2017, for the Stadium Project Revenue Bonds, and $8.2 million and $6.7 million as of June 30, 2018 and June 30, 2017, respectively for the Educational Building Bonds.

Investments in governmental securities are stated at market value. Repurchase agreements are stated at cost.

d. Accounts and Contributions Receivable

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, the University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, staff and external entities, and include reimbursement of costs from external entities and related foundations. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

e. Investments and Investment Income

Investments in marketable debt and equity securities are stated at current fair value. Fair value is determined using quoted market prices. Real estate is stated at fair value if acquired for resale or otherwise used as an investment as determined on the date of acquisition. Certificates of deposit are stated at cost plus accrued interest, which approximates fair value. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

Investments held with the Foundation are invested under the policies and objectives established for the Foundation's general endowment pool. In an effort to mitigate market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities and real estate investments.

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities.

The Association's permanent endowment funds, held by the Foundation and invested in the Foundation's general endowment pool, are administered under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky. The Foundation's board of directors has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

The Foundation invests in various corporate debt, equity, partnerships, marketable alternatives, mutual fund securities, U.S. Government securities, certificates of deposit, land and buildings. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated statements of financial position.

f. Loans to Students

The University makes loans to students under various federal and other 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 and $0.8 million at June 30, 2018 and 2017, respectively.

g. Inventories

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

h. Capital Assets

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

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

Prior to the period ending June 30, 2018, The University capitalized interest costs as a component of construction in progress, based on the interest cost of borrowings, net of interest earned from proceeds of the borrowings. The University elected to early adopt GASB statement No. 89 *Accounting for Interest Incurred Before the End of a Construction Period*. A description of the statement is located at item v in Note 1.

i. Deferred Outflows and Inflows of Resources

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the University reports deferred outflows of resources, deferred inflows of resources and net position in its statements of net position and related disclosures.

Deferred outflows of resources of $9.7 million and $7.4 million for the years ended June 30, 2018 and 2017, respectively, consist primarily of loss on bond refinancing of $6.3 million and amounts paid for other postemployment benefits of $3.4 million as of June 30, 2018 and loss on bond refinancing of $7.4 million and fair value of a derivative of $19 thousand as of June 30, 2017. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred outflows of resources. Deferred outflows for other postemployment benefits represent amounts paid for employee healthcare after the actuarial measurement date but before the financial reporting date. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense using the effective interest method over the remaining life of the refinanced debt.

Deferred inflows of resources of $61.3 million and $49.4 million for the years ended June 30, 2018 and 2017, respectively, consisted of $53.9 million and $49.4 million of service concession arrangements, respectively, a $184 thousand fair value of derivatives and $7.2 million of postemployment benefit experience and assumption changes for the year ended June 30, 2018. As the derivatives are effective hedging instruments, positive fair value is recognized as a deferred inflows of resources. Deferred inflows of resources related to service concession arrangements contributions from providers under a food service contract, a copy center contract, and a book store contract. Changes in the other postemployment deferred inflows will be recognized in future periods.

The University entered into 15 year arrangements for foodservice and bookstore concessions, and a 13 year arrangement for copy center concessions that meet the definition of service concession arrangements under GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The impact to the Statement of Net Position as of June 30, 2018, include $53.9 million of deferred inflows of resources, $29.0 million of long-term receivables and $14.7 million of net capital assets recorded. Under the agreements, the University maintains ownership of the facilities, while the 3rd 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.

j. Unearned Compensation Expenses

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

k. Advances

Revenues of summer school academic terms are recognized in the fiscal year earned.

Advances related to amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, parking and sponsorship revenue are recognized over the term of the related athletic activities.

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

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

In the case of advanced funding, the University receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor. Grant revenues are recognized as the related grant costs are incurred.

l. 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 the net bond premium using the effective interest method over the life of the bond.

n. Net Position

The net position of the University is classified in four components. Net investment in capital assets consists of the net amount of capital assets, accumulated depreciation, related deferred outflows and deferred inflows of resources, reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted-nonexpendable net position is subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. Restricted-expendable net position consists of the amount of assets and deferred outflows that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, reduced by the outstanding balances of any related liabilities or deferred inflows of resources. Unrestricted net position is the remaining net amount of assets, related deferred outflows and deferred inflows of resources less liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

o. Classification of Revenues

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, such as tuition, clinical operations, grants and contracts and intercollegiate activities.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, capital appropriations, 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 Management's Discussion and Analysis for State and Local Governments,* such as investment income.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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.

u. Reclassification of Prior Years' Financial Statements

In the statements of net position, revenues 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.

v. 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. It is not practical for the University 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.

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 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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Deposits	$ 116,655	$ 139,376
Investments		
U.S. Treasury obligations	43	87
Other government obligations	-	2,242
Repurchase agreements	8,167	6,660
Investments held with the Foundation	13,884	25,280
Annuities	1,358	1,558
Other long-term investments	2	2
Total	$ 140,109	$ 175,205

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

	2018	2017
Cash and cash equivalents	$ 80,839	$ 76,669
Deposit with bond trustee-current	-	47
Short-term investments	-	2,242
Restricted cash and cash equivalents	35,816	62,707
Deposit with bond trustee-noncurrent	8,210	6,700
Investments held with the Foundation	13,884	25,280
Other long-term investments	1,360	1,560
Total	$ 140,109	$ 175,205

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in variable rate demand notes are substantially covered by collateral held by the financial agent. The University does not have a formal policy addressing custodial credit risk.

At June 30, 2018 and 2017, the University had deposits subject to custodial credit risk as follows on the following page (in thousands):

June 30, 2018	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized	$ -	$ 74,890	$ 74,890
Collateralized with securities held by pledging financial institution	-	24,925	24,925
Collateralized with securities held by the Commonwealth in the Commonwealth's name	13,815	-	13,815
Total	$ 13,815	$ 99,815	$ 113,630

June 30, 2017	State Deposits	Overnight Investments	Total
Collateralized with securities held by pledging financial institution	$ -	$ 7,555	$ 7,555
Collateralized with securities held by the Commonwealth in the Commonwealth's name	72,153	-	72,153
Total	$ 72,153	$ 7,555	$ 79,708

Due to the timing of a deposit on June 29, 2018, substantial funds were uncollateralized at June 30, 2018. The University's bank does not collateralize intra-day deposits therefore, the deposit remained uncollateralized until additional collateral was pledged July 2, 2018, the next business day.

c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The University's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, banker's acceptances, and variable rate demand notes with a maturity not greater than three years. The University has entered into a repurchase agreement for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve in exchange for payment from the available reserve. The final maturity under this agreement is March 1, 2027.

As of June 30, 2018 and 2017, the University had investments subject to interest rate risk as reflected in schedules presented as follows and on the following page (in thousands):

		Maturities in years			
June 30, 2018	Total	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 43	$ 43	$ -	$ -	$ -
Repurchase agreements	8,167	-	-	8,167	-
Total	$ 8,210	$ 43	$ -	$ 8,167	$ -

		Maturities in years			
June 30, 2017	Total	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 87	$ 87	$ -	$ -	$ -
Other government obligation:	2,242	2,242	-	-	-
Repurchase agreement	6,660	-	-	-	6,660
Total	$ 8,989	$ 2,329	$ -	$ -	$ 6,660

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, 2018 and 2017, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

June 30, 2018	Aaa	Not Rated	Total
Annuities	$ 1,358	$ -	$ 1,358
Investments held with the Foundation	-	13,884	13,884
Total	$ 1,358	$ 13,884	$ 15,242

June 30, 2017	Aaa	Not Rated	Total
Annuities	$ 1,558	$ -	$ 1,558
Investments held with the Foundation	-	25,280	25,280
Total	$ 1,558	$ 25,280	$ 26,838

e. <u>Concentration of Credit Risk</u>

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, 2018 and 2017, the University has no investments in any one issuer as defined above that represent 5% or more of total investments.

The asset allocation for investments held with the Foundation as of June 30, 2018 and 2017 is as follows:

	2018	2017
Investment in partnerships	53%	60%
Marketable alternatives	22%	13%
Preferred and common stock	4%	13%
Mutual funds	13%	12%
Fixed income	8%	2%
Total	100%	100%

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

f. <u>Foreign Currency Risk</u>

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, 2018 and 2017.

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The table on the following page presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements as prescribed by *GASB 72, Fair Value Measurement and Application*, as of June 30, 2018 and 2017 (in thousands):

	Balance as of 6/30/2018	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 Treasury obligations	$ 43	$ 43	$ -	$ -	$ -
University of Louisville Foundation, Inc. investment fund	13,884	-	-	-	13,884
Investment derivative instruments					
Interest rate swap	184	-	184	-	-
Total investments measured at fair value	$ 14,111	$ 43	$ 184	$ -	$ 13,884

	Balance as of 6/30/2017	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 Treasury obligations	$ 87	$ 87	$ -	$ -	$ -
Other governmental obligations	2,242	-	2,242	-	-
University of Louisville Foundation, Inc. investment fund	25,280	-	-	-	25,280
Investment derivative instruments					
Interest rate swap	(19)	-	(19)	-	-
Total investments measured at fair value	$ 27,590	$ 87	$ 2,223	$ -	$ 25,280

a. Investments

Certificates of deposit securities and US Treasury obligations classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Other governmental obligations and U.S. agency obligations classified in Level 2 of the fair value hierarchy are valued using a pricing matrix technique.

b. Investment Derivative Instruments

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using standard pricing models using current forward rate assumptions and/or volatilities to predict cash flows.

Investments measured at net asset value (NAV) (in thousands):

	Fair Value as of 6/30/18	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 13,884	Various from any valuation day to quarterly	Various from 5 to 90 days

	Fair Value as of 6/30/17	Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$ 25,280	Various from any valuation day to quarterly	Various from 5 to 90 days

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.

4. Loans, Accounts, and Contributions Receivable, Net

Loans, accounts, and contributions receivable, net as of June 30, 2018 and 2017 are as follows on the following page (in thousands):

2018	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 40,080	$ (14,500)	$ 25,580
Patient care	67,381	(41,728)	25,653
Contributions receivable	33,384	(10,572)	22,812
Sponsored agreements	21,045	(1,763)	19,282
Trade receivables	8,272	-	8,272
Other	31,868	(418)	31,450
Total	$ 202,030	$ (68,981)	133,049
Less discount			(928)
Current portion			72,105
Noncurrent portion			$ 60,016

2017	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 38,101	$ (12,097)	$ 26,004
Patient care	69,072	(48,148)	20,924
Contributions receivable	39,341	(5,289)	34,052
Sponsored agreements	18,528	(1,763)	16,765
Rent from University Medical Center, Inc.	5,306	-	5,306
Trade receivables	6,699	-	6,699
Other	40,289	(488)	39,801
Total	$ 217,336	$ (67,785)	149,551
Less discount			(780)
Current portion			77,023
Noncurrent portion			$ 71,748

Contributions receivable consist primarily of charitable gifts totaling $33.4 million pledged from individual and corporate donors that are associated with the construction projects of the Association. Receivables with payment schedules in excess of one year are stated at their present value, using discount rates ranging from 0.2% to 5.2% as of June 30, 2018.

Other receivables consist primarily of receivables under service concession arrangements as of June 30, 2018 and June 30, 2017.

Contributions receivable as of June 30, 2018 and 2017 are due to be received as follows (in thousands):

	2018	2017
Less than one year	$ 11,016	$ 12,070
One to three years	12,445	14,788
Greater than three years	9,923	12,483
Subtotal	33,384	39,341
Less discount	(928)	(780)
Less allowance	(10,572)	(5,289)
Net contributions receivable	$ 21,884	$ 33,272

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, the University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

5. Due From Affiliates

a. University of Louisville Foundation, Inc.

The Foundation receives, invests, manages and administers private gifts, bequests and endowments donated for the benefit of the University. The Foundation acts in a fiduciary capacity, distributing the donated and earned funds as required by the terms of the gifts and consistent with the donor's intent. The Foundation owed $6.9 million and $18.3 million to the University as of June 30, 2018 and 2017, respectively, to fund spending of these donations and earnings and is recorded in current Due from Affiliate. The Foundation through its subsidiary remits surplus revenues to the University from the operation of certain dormitories as specified in the Ground Lease. As of June 30, 2018, the University has a current due from affiliate totaling $128 thousand relating to the Ground Lease.

b. University of Louisville Real Estate Foundation, Inc.

By memorandum of agreement dated July 1, 2015, the University agreed to loan $38.0 million to the ULREF. The receivable was to be repaid in full or satisfied through other financial instruments within 3 years of the effective date of the agreement, with effective date defined as the date on which the University transfers funds to the ULREF. During December 2017 a new promissory note was executed for the remaining balance of $7.8 million, establishing annual payment of principal and interest over five years. The unpaid balance bears simple interest equal to 75 basis points greater than the University's cash sweep rate. The ULREF repaid $3.6 million and $-0- million of the loan during the years ended June 30, 2018 and June 30, 2017, respectively, leaving a balance of $1.6 million in current due from affiliates as of June 30, 2018, and $4.7 million and $9.8 million in noncurrent due from affiliates as of June 30, 2018 and June 30, 2017.

c. University of Louisville Physicians, Inc.

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 $0.2 million and $-0- million of the outstanding balance during the years ended June 30, 2018 and 2017, respectively. The outstanding note balance is $5.7 million as of June 2018, with $65 thousand in current due from affiliate and the remaining $5.6 million in noncurrent due from affiliate.

d. University Medical Center, Inc.

KentuckyOne Healthcare, Inc. in relation to terminating its academic affiliation agreement (AAA) with the University, assigned a receivable to the University from University Medical Center, Inc. (UMC) in exchange for release of funds due under the academic affiliation agreement. The University recorded an unsecured noninterest bearing note of $23.9 million from UMC as of June 30, 2017. The note is to be repaid in installments over five years. UMC repaid $5.0 million and $-0- million of the outstanding balance during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the balance of the receivable is $18.9 million with $5.0 million recorded in current due from affiliates and $13.9 million in noncurrent due from affiliates.

6. Capital Assets, Net

Capital assets as of June 30, 2018 and 2017 are as follows and on the following page (in thousands):

	2018				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Cost - Nondepreciable					
Land	$ 44,677	$ -	$ -	$ -	$ 44,677
Rare books	45,073	2,837	-	-	47,910
Construction in progress	53,542	108,053	-	(369)	161,226
Subtotal	143,292	110,890	-	(369)	253,813
Cost - Depreciable					
Buildings	1,162,234	6,121	-	369	1,168,724
Infrastructure	53,515	360	-	-	53,875
Land improvements	19,849	-	-	-	19,849
Equipment	200,939	8,973	(2,615)	-	207,297
Leasehold improvements	2,117	-	-	-	2,117
Library materials	171,842	2,017	-	-	173,859
Subtotal	1,610,496	17,471	(2,615)	369	1,625,721
Total capital assets-cost	1,753,788	128,361	(2,615)	-	1,879,534
Accumulated depreciation					
Buildings	521,304	34,835	-	-	556,139
Infrastructure	3,900	894	-	-	4,794
Land improvements	4,122	567	-	-	4,689
Equipment	177,855	8,079	(2,485)	-	183,449
Leasehold improvements	1,563	64	-	-	1,627
Library materials	153,100	4,341	-	-	157,441
Total accumulated depr.	861,844	48,780	(2,485)	-	908,139
Capital assets, net	$ 891,944	$ 79,581	$ (130)	$ -	$ 971,395

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 44,204	$ 473	$ -	$ -	$ 44,677
Rare books	44,502	571	-	-	45,073
Construction in progress	67,016	55,558	-	(69,032)	53,542
Subtotal	155,722	56,602	-	(69,032)	143,292
Cost - Depreciable					
Buildings	1,131,843	7,881	(4,372)	26,882	1,162,234
Infrastructure	11,238	251	-	42,026	53,515
Land improvements	19,628	97	-	124	19,849
Equipment	199,284	7,459	(5,804)	-	200,939
Leasehold improvements	2,117	-	-	-	2,117
Library materials	170,045	1,797	-	-	171,842
Subtotal	1,534,155	17,485	(10,176)	69,032	1,610,496
Total capital assets-cost	1,689,877	74,087	(10,176)	-	1,753,788
Accumulated depreciation					
Buildings	489,274	34,489	(2,459)	-	521,304
Infrastructure	3,383	517	-	-	3,900
Land improvements	3,557	565	-	-	4,122
Equipment	174,956	8,578	(5,679)	-	177,855
Leasehold improvements	1,499	64	-	-	1,563
Library materials	148,810	4,290	-	-	153,100
Total accumulated depr.	821,479	48,503	(8,138)	-	861,844
Capital assets, net	$ 868,398	$ 25,584	$ (2,038)	$ -	$ 891,944

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2018 and 2017 (in thousands):

	2018	2017
Salaries and benefits	$ 40,351	$ 46,667
Payroll taxes	15,868	16,339
Construction	16,899	9,588
Accrued interest	3,635	3,828
Other	25,646	18,448
Total	$ 102,399	$ 94,869

8. Amounts Payable to University of Louisville Foundation, Inc.

In January 1999, the Association obtained an $8.5 million unsecured, noninterest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the University and collections are transferred to the Association for the repayment of the loan. No payments were made during the years June 30, 2018 and 2017. The outstanding balance was approximately $1.0 million for each of the years ended June 30, 2018 and 2017.

In July 2001, the Association obtained a $347 thousand unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball offices. The outstanding loan balance is approximately $316 thousand for each of the years ended June 30, 2018 and 2017.

9. Bonds, Notes, and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2018 and 2017 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2018	2017
General Receipts Bonds:				
Series A of 2007	-	2018	$ -	$ 1,960
Series A of 2008	4.0%	2019	4,055	7,955
Series B of 2010	5.5%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	26,630	27,940
Series A of 2012	5.0%	2023	7,435	8,715
Series A of 2016	2.0% to 5.0%	2036	12,600	13,310
Series B of 2016	3.0% to 5.0%	2028	23,610	23,630
Series C of 2016	2.0% to 4.0%	2029	51,380	51,460
Series D of 2016	3.0% to 5.0%	2036	45,295	45,295
Series E of 2016	2.2% to 3.0%	2023	5,390	5,390
Series F of 2016	5.00%	2028	23,645	25,440
Notes payable	2.9%	2022	9,626	10,988
Master lease obligations	3.9%	2028	7,200	-
Energy leases	2.6% to 4.8%	2033	15,204	17,043
Capital lease obligations	2.0% to 10.7%	2020	601	540
Total long-term debt			253,613	260,608
Net unamortized premium			17,645	20,200
Long-term debt, net			$ 271,258	$ 280,808

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

2018	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 232,037	$ -	$ (11,055)	$ 220,982	$ 13,755	$ 207,227
Notes payable	10,988	9,626	(10,988)	9,626	3,013	6,613
Energy leases	17,043	-	(1,839)	15,204	1,921	13,283
Master lease obligations	-	7,200	-	7,200	601	6,599
Capital leases	540	387	(326)	601	423	178
Total	260,608	17,213	(24,208)	253,613	19,713	233,900
Less unamortized net (discount)/premium	20,200	-	(2,555)	17,645	2,449	15,196
Net bonds payable	$ 280,808	$ 17,213	$ (26,763)	$ 271,258	$ 22,162	$ 249,096

2017	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 205,047	$ 78,310	$ (51,320)	$ 232,037	$ 12,255	$ 219,782
Notes payable	14,171	-	(3,183)	10,988	10,988	-
Energy leases	18,791	-	(1,748)	17,043	1,839	15,204
Capital leases	326	373	(159)	540	194	346
Total	238,335	78,683	(56,410)	260,608	25,276	235,332
Less unamortized net discount	13,669	8,254	(1,723)	20,200	2,555	17,645
Net bonds payable	$ 252,004	$ 86,937	$ (58,133)	$ 280,808	$ 27,831	$ 252,977

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods are as follows (in thousands):

For the year ended June 30	Principal	Interest	Total
2019	$ 19,713	$ 10,686	$ 30,399
2020	19,440	9,995	29,435
2021	19,744	9,301	29,045
2022	19,790	8,605	28,395
2023	19,969	7,897	27,866
2024 - 2028	92,824	28,593	121,417
2029 - 2033	43,540	9,221	52,761
2034 - 2036	18,593	1,676	20,269
Total	$ 253,613	$ 85,974	$ 339,587

The University has capitalized leased equipment with a net book value of $0.8 million and $0.6 million as of June 30, 2018 and 2017, respectively.

The General Receipts Bonds are collateralized by mortgages on certain University properties. Association revenue totaling $2.0 million annually is to be available for amounts owed by the Association under the Arena lease agreement. The remaining operating and nonoperating income of the University, excluding income which as a condition of receipt is not available for payment of debt service charges, are pledged for the General Receipts Bonds. Total principal and interest remaining on the debt is $301.9 million, with annual requirements ranging from $6.7 million in 2036 to $33.3 million in 2028. For the current year, principal and interest paid by the University and the total pledged revenue recognized were $22.2 million and $524.6 million, respectively.

As of June 30, 2018 and 2017, investments at fair value totaling approximately $8.1 million and $6.7 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 Bond, 2007 Series A

In April 2007, the University issued the $41.0 million General Receipts Bond 2007 Series A to provide permanent fixed rate financing for the renovation of the Home of the Innocents property, to provide office space to be used by the University's School of Public Health and Information Sciences; land acquisition for and construction of Patterson Baseball Stadium; construction of Trager Field House for use by intercollegiate teams; construction of the YUM Practice Facility, to be used by the basketball and volleyball teams; and construction of the Center for Predictive Medicine, a Level 3 Regional Bio-safety Laboratory. Security for the bonds includes a pledge of the general receipts of the University and includes the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series B. The final maturity due to the refunding is September 1, 2017. The balance remaining of the General Receipts Bonds 2007 Series A is $2.0 million as of June 30, 2017.

University of Louisville General Receipts Bonds, 2008 Series A

In July 2008, the University issued $86.1 million of University of Louisville, General Receipts Bonds, 2008 Series A at a net interest cost of 4.4%. The bond proceeds were used for the construction of a second Health Sciences Center parking garage, to fully fund the construction of a Clinical and Translational Research Building, and for renovation of the School of Dentistry. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series C. The final maturity due to the refunding is September 1, 2018. The balance remaining of the General Receipts Bonds 2008 Series A is $4.1 million as of June 30, 2018.

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

In December 2010, the University issued $4.1 million of University of Louisville, General Receipts Bonds, 2010 Series A at a total interest cost of 3.3% and $20.9 million of University of Louisville, General Receipts Bonds, 2010 Series B at a total interest cost of 1.8%, both 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 of over $2.0 million 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. Final maturity of the bonds is September 1, 2027.

The General Receipts Bonds, 2010 Series A were currently refunded by the issuance of General Receipts Bonds, 2016 Series A. As a result, the liability for these bonds has been removed from the University's statement of net position.

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 71.8% 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. On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the QECB bond subsidy was reduced to approximately 67% for fiscal years ended June 30, 2018 and 2017.

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.

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). The bond proceeds together with an issuance premium of $2.5 million and funds from the debt service reserve fund for the prior bonds of $2.8 million have been deposited in escrow and will be used to pay the interest and principal requirements of the prior bonds maturing through and including May 1, 2013, and redeem and retire the prior bonds on May 1, 2013. Final maturity on the 2012 Bonds is March 1, 2023. There were no debt service requirements on the prior bonds as of June 30, 2018 and 2017.

University of Louisville General Receipts Bonds, 2016 Series A

In April 2016, the University issued $14.1 million of University of Louisville, General Receipts Bonds, 2017 Series A at a total interest cost of 2.8%. The bonds were issued to fund the University's share of the cost of the renovation and expansion of the University of Louisville Student Activity Center and to currently refund $3.2 million of University of Louisville General Receipts Bonds, Taxable Build America Bonds, 2010 Series A with a weighted average interest rate of 3.7% and $2.6 million of Consolidated Educational Buildings Revenue Bonds Series P with a weighted average interest rate of 3.9% (combined, the prior bonds). The bond proceeds were combined with an issuance premium of $1.4 million and funds from the debt service reserve fund for the Series P bond of $0.3 million to complete the current refunding of the prior bonds. As a result the liability for the prior bonds has been removed from the University's statement of net position. Final maturity on the 2016 Series A Bonds is March 1, 2036. The University will reduce its total debt service payments by $0.8 million and realize net present value savings of approximately $0.4 million as a result of the refinancing.

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 deposited in escrow and will be used to pay the interest requirements of the 2007 Series A bonds maturing on and after September 1, 2018 through and including September 1, 2017, and redeem and retire the General Receipts Bonds 2007 Series A on September 1, 2017. As such the General Receipts 2007 Series A bond has been removed from the June 30, 2018 financial statement. Final maturity on the 2016 Series B bonds is September 1, 2027. The University will reduce its total debt service payments by $2.0 million and realize net present value savings of approximately $1.8 million as a result of the refinancing.

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 deposited in escrow and will be used to pay the interest of the General Receipts Bonds 2008 Series A maturing on or after September 1, 2019 through and including September 1, 2018, and redeem and retire the prior bonds on September 1, 2018. The balance remaining of the General Receipts Bonds 2008 Series A is $4.1 million as of June 30, 2018. Final maturity on the 2016 Series C Bonds is September 1, 2028. The University will reduce its total debt service payments by $3.3 million and realize net present value savings of approximately $3.1 million as a result of the refinancing.

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 deposited in escrow and will be used to pay the interest of the Metro Government Mortgage Revenue Bonds, Series 2008 B through and including September 1, 2018, and redeem and retire the prior bonds on September 1, 2018. Final maturity on the 2016 Series F Bonds is March 1, 2028. The University will reduce its total debt service payments over the next 11 years by $1.8 million and realize net present value savings of approximately $1.6 million as a result of the refinancing.

Note Payable

In June 2013, the Association entered into a $15.0 million Term Loan with a national banking association. The proceeds were used to partially finance the renovation of the baseball and softball stadiums, for a sound system at the stadium and the construction of a soccer stadium (Project). In June 2018, the balance of the Term Loan was refinanced for a term of four years. The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the Term Loan is the Daily One Month LIBOR rate plus 1.14%, reset on the last day of each month. This term loan was refinanced in June 2018 and replaced with a $9.8 million term loarn with substantially the same terms. This note contains a covenant that states the Association must maintain $10.0 million in unrestricted cash or investments. The balance of the term loan was $9.6 million and $10.9 million as of June 30, 2018 and June 30, 2017, respectively.

Energy Leases

In September 2009, the University entered into a $20.4 million master lease with a financial institution. The proceeds have been used to finance investments in certain equipment designed to reduce energy usage. The lessor receives an exclusive security interest in any and all equipment acquired. The lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 4.8% fixed interest rate and a term ending 2023. The balance of the lease was $10.0 million and $11.6 million as of June 30, 2018 and 2017, respectively.

In May 2015, the University entered into a $5.7 million master lease to finance investments in energy saving technology with a financial institution. The lessor receives an exclusive security interest in any and all equipment acquired. The lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 2.6% fixed interest rate and a term ending 2033. The balance of the lease was $5.2 million and $5.4 million as of June 30, 2018 and June 30, 2017, respectively.

Master Lease

In May 2018, the University entered into a $7.2 million master lease to finance investments in construction of a network production studio with a financial institution. The lessor receives an exclusive security interest in any and all equipment acquired. The lease specifies as events of default failure to pay rent when such failure continues for 10 days after the due date, the application for or consent to the appointment of a receiver in bankruptcy, and failure to perform any other covenant for a period of 30 days. The University through the master lease covenants not to grant secondary liens on the equipment under lease, to carry adequate insurance with the financial institution as loss payee, and to not act or fail to act when such action or inaction would impair the tax exempt status of the interest under the lease. The master lease has a 3.9% fixed interest rate and a term ending 2028. The balance of the lease was $7.2 million as of June 30, 2018.

Lines of Credit

The University issued a line of credit in the form of a revenue anticipation note on June 1, 2018 in the amount of $50 million with a maturity date of June 29, 2018. No draws were made from the available credit through its expiration. The University renewed the line of credit on July 2, 2018 with a maturity date of June 28, 2019 with substantially the same terms as the original line of credit..

10. Derivative Financial Instruments

a. Summary

At June 30, 2018, the Association has the following derivative instruments outstanding (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Term Loan	$ 15,000	06/28/13	06/30/22	Pay 2.9%; receive LIBOR + 1.14%	$ 184

The fair value of the Interest Rate Swap was determined using the market's current forward rate assumptions in order to predict future cash flows on the floating side and is included in other long-term assets on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the Association's statements of net position. For the year ended June 30, 2018, the increase in fair value of the Interest Rate Swap was approximately $203,000. No initial cash receipt or payment was made in relation to the Interest Rate Swap. The Association receives or pays a net amount monthly and includes the monthly settlement amount in interest expense.

b. Credit Risk

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2018. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Association has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2018, the counterparty to the Interest Rate Swap had a credit rating of A3 from Moody's Investors Services.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Association's financial instruments or cash flows. The fair market values of the derivative instruments are expected to fluctuate over the life of the agreement in response to changes in interest rates. The Association does not have a formally adopted policy related to interest rate risk related to derivative instruments.

d. Termination Risk

The Association or the counterparty may terminate the Interest Rate Swap if the other party fails to perform under the terms of the contract. The contract also provides for other termination events, including if the Term Loan matures, expires, is terminated or cancelled or changes lenders. If the Interest Rate Swap terminates early and the Association is the defaulting party, the Association would be liable for the losses, if any, of the counterparty.

11. Other Liabilities

Other liabilities of the University are summarized on the following page at June 30, 2018 and 2017 (in thousands):

2018

	Beginning Balance (as restated)	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316	$ -	$ -	$ 316	$ -	$ 316
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Unearned compensation and wages payable	6,374	433	(4,286)	2,521	320	2,201
Deposits	1,451	259	(61)	1,649	-	1,649
Advances	50,888	11,840	(10,488)	52,240	48,406	3,834
Amounts due federal government for student loan program	15,348	567	-	15,915	-	15,915
Other postemployment benefits	92,022	(162)	(3,017)	88,843	-	88,843
Other long-term liabilities	1,588	(87)	(1,499)	2	-	2
Total	$ 168,987	$ 12,850	$ (19,351)	$ 162,486	$ 48,726	$ 113,760

2017

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316	$ -	$ -	$ 316	$ -	$ 316
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Unearned compensation and wages payable	9,581	1,289	(4,496)	6,374	1,686	4,688
Deposits	918	584	(51)	1,451	-	1,451
Advances	108,553	5,511	(63,176)	50,888	47,537	3,351
Amounts due federal government for student loan program	16,199	-	(851)	15,348	-	15,348
Other postemployment benefits	40,742	10,509	(2,858)	48,393	4,650	43,743
Other long-term liabilities	4,427	(407)	(2,432)	1,588	1,527	61
Total	$ 181,736	$ 17,486	$ (73,864)	$ 125,358	$ 55,400	$ 69,958

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

12. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the "Fund"); (2) Sovereign Immunity and the State Board of Claims or, (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, or participation in insurance risk retention groups.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $500 and $1,000,000 per occurrence. Losses in excess of $1,000,000 are insured by commercial carriers up to $1.2 billion per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group.

There have been no significant reductions in insurance coverage from 2017 to 2018. 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, 2018 and 2017, respectively, was approximately $60.1 million and $58.0 million, including $4.7 million and $4.3 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

The following table reconciles the claims liability for the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016:

Fiscal year ended June 30,	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2018	$ 4,277	$ 62,016	$ (61,961)	$ 4,332
2017	4,731	59,882	(60,336)	4,277
2016	5,825	53,893	(54,987)	4,731

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Salaries and wages	$ 556,422	$ 573,480
Employee benefits	140,849	147,539
Utilities	20,330	20,059
Scholarships and fellowships	35,437	34,505
Depreciation	48,780	48,503
Supplies and other services	231,348	247,451
Total	$ 1,033,166	$ 1,071,537

14. 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. Eligible employees not contributing to the 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 plan requires three years of continuous service for employees to vest in employer contributions.

Other information relating to this plan for the years ended June 30, 2018 and 2017 is presented as follows (in thousands):

	2018	2017
Total University payroll	$ 567,114	$ 579,095
Total payroll covered by the plan	547,026	555,392
Employee contributions	30,429	30,417
University contributions	40,605	40,539

As of June 30, 2018 and 2017, the University had no forfeitures or outstanding liability related to the Retirement Plan.

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, 2018 and June 30, 2017. 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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Actuarial present value of nonvested accumulated plan benefits	$ 1,066	$ 1,168
Net assets available for benefits	$ 1,325	$ 1,472
Net pension surplus	$ (259)	$ (304)
Funded ratio	124%	126%

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, 2018 and 2017, for preretirement and postretirement periods.

15. 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	5,546
Total	6,987

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:

2018	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

2017	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

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 on the following page (in thousands):

	Total OPEB Liability
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	(3,179)
Balances at 6/30/2018	$ 88,843

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:

	1% Decrease (2.58)%	Discount Rate (3.58)%	1% Increase (4.58)%
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:

	1% Decrease (7.1% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.1% decreasing to 4.5%	1% Increase (9.1% decreasing to 5.5%)
Net OPEB liability	$ 82,733	$ 88,843	$ 96,178

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
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	$ 3,384	$ (7,157)

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

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

Year ended June 30:	
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% initially, reduced by decrements to an ultimate rate of 4.5% 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.

16. Health Science Center Affiliations and Agreements

a. University Hospital Affiliation, Lease and Operating Agreements

In December 2016, the University entered into a Memorandum of Understanding with University Medical Center, Inc. (UMC) stating certain claims brought against KentuckyOne have been settled. As a result of the settlement the University agreed to release KentuckyOne from programmatic investment funds due under a former Academic Affiliation Agreement (AAA) and that UMC assumed the payments to the University for the forgiveness of termination payments due to KentuckyOne by UMC. The Memorandum of Understanding also stated the operation of the University of Louisville Hospital would transition to ULH effective July 1, 2017.

As of July 1, 2017, an Amended and Restated AAA between The University and UMC became effective. The AAA defines the scope of services and purpose of affiliation to sustain the University's academic, education and research missions, and to provide facilities and resources for providing healthcare to patients. During the term of the agreement, UMC will provide in the aggregate, no less than $77.6 million annually, which includes funding of $18.3 million for salaries and benefits; academic mission support for University Health Sciences Center of $12.5 million; departmental, clinical and administrative support of $39.3 million; and lease payments of $7.0 million to $7.5 million over the term of the lease. For the year ended June 30, 2018, the University received $58.4 million from UMC in fulfillment of the annual funding arrangements. The initial term of the AAA is two years and automatically renews for successive one-year periods unless either party provides written notice under the terms in the agreement.

As of July 1, 2017, as Amended and Restated Lease Agreement (Lease) between the Commonwealth of Kentucky, for the use and benefit of the University, and UMC became effective. The Lease calls for annual lease fees of $7.0 million to be paid in equal monthly payments by UMC to the University for the first two years, then $7.5 million each renewal term thereafter. The initial term of the Lease is two years and automatically renews for up to three one-year periods unless either party provides written notice under the terms in the agreement. The annual rent revenue from UMC is included in clinical services and practice plan revenue as of June 30, 2018.

The accompanying statements of net position include approximately $2.7 million in accounts receivable for the year ended June 30, 2018 representing amounts due from the AAA and Lease agreements.

In November 2012, the University, Commonwealth, UMC, and KentuckyOne Health, Inc. (KentuckyOne) amended and restated the UMC land lease and executed an academic affiliation agreement, superseding the one dated July 1, 2007. The initial term was twenty years, beginning on the Integration Date, which was March 1, 2013. As of June 30, 2017, the academic affiliation agreement was terminated and the land lease was amended and restated as described in the preceding paragraphs.

The academic affiliation agreement called for a strategic programmatic investment fund and plan. KentuckyOne was to invest $114.5 million in key University clinical service lines and departments and $20.5 million in academic and programmatic investment in clinical services lines at Jewish Hospital and St. Mary's Healthcare, Inc. (Jewish Hospital) facilities. An additional $3.0 million per annum for twenty years was to be made available for research. For the year ending June 30, 2017, the University received $34.4 million and $2.9 million related to the strategic programmatic investments and research initiatives, respectively. The agreement also called for the payment annually of discretionary funding of $15 million over three years with payment contingent on the achievement of certain performance metrics. During the year ended June 30, 2017, the University received $3.6 million for discretionary purposes to support key statewide areas of focus.

The academic affiliation agreement also called for KentuckyOne to provide an aggregate $75 million per annum in academic support for the initial term of five years subject to annual adjustments to the Medicare base rate. The academic support payment included funding for resident positions over the term of the affiliation agreement. As of the termination of the academic affiliation agreement on June 30, 2017, a new agreement was executed for the continuation of funding for the resident positions. Funding for the years ended June 30, 2018 and 2017 were $18.9 million and $65.6 million, respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net position.

Concurrently with the academic affiliation agreement, KentuckyOne entered into a joint operating agreement with UMC, agreeing to be the sole and exclusive agent acting for and on behalf of UMC to provide the day-to-day management of the University Hospital, with the exception of the Maintained Procedures, as defined in the agreement. The agreement called for KentuckyOne to make annual payments of not less than $7.5 million and not more than $17.5 million based on the ratio of net operating income to budget for KentuckyOne. The accompanying statements of revenues, expenses, and changes in net position include approximately $7.5 million for the year ended June 30, 2017 in clinical services and practice plan revenues related to the joint operating agreement. The joint operating agreement was terminated June 30, 2017 and management of the University Hospital was returned to UMC as of July 1, 2017.

Concurrently with the academic affiliation agreement and joint operating agreement, the Commonwealth and the University as lessor amended and restated the lease agreement with KentuckyOne to lease the Hospital. The annual lease payment was $7.0 million as of the termination of the agreement on June 30, 2017. Included in the joint operating agreement was a provision that $5.0 million of the annual rent payment flow to the Quality and Charity Care Trust through June 30, 2016 as the Quality and Charity Care Trust was dissolved during the year ending June 30, 2017. The lease provides for additional rent each year to be adjusted annually commensurate with the increase or decrease in the utilities and other operating expenses of the leased property. The University was required to pay KentuckyOne any amounts related to the utilities and other operating expenses collected from third parties. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was $8.0 million for the year ended June 30, 2017, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Lease expense for the year ended June 30, 2017 was $0.8 million, and is included in public service expense in the statements of revenues, expenses, and changes in net position.

The accompanying statements of net position include approximately $5.3 million in accounts receivable for the year ended June 30, 2017 representing amounts due from the lease of the Hospital.

b. Quality and Charity Care Trust Transfers for Hospital Operations

The University entered into The Revised Quality and Charity Care Trust agreement (Revised Trust Agreement) with the Commonwealth, Jefferson County, the Louisville Metro Government, and UMC for the purpose of providing medically necessary hospital care, both inpatient and outpatient, to indigent patients in the Louisville area. The Quality and Charity Care Trust, Inc. (Trust) received government funds and disbursed them for Trust operations in accordance with the terms of the agreement.

The Trust, funded by the Commonwealth and the local governments, is charged with the obligation to provide for the health care needs of economically disadvantaged persons who have historically been ministered to by the University as a public service in the course of its teaching programs.

The University and the Commonwealth selected UMC, a Kentucky non-profit corporation, as the provider of the healthcare services through the Hospital. Under the November 2012 joint operating agreement, KentuckyOne agreed to manage the Hospital in a manner consistent with the Revised Trust Agreement. No funding was provided to the Trust for the year ending June 30, 2017. The Trust was dissolved as of June 30, 2017.

c. Norton Healthcare

On December 17, 2015, Norton Healthcare, Inc., (Norton), the University and Commonwealth agreed to a Settlement Agreement, a First Amendment to Lease and a First Amendment to Master Affiliation Agreement, amending the original Lease and Master Affiliation Agreement. These agreements provided 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 Norton 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.

d. Cardiovascular Innovation Institute

In October 2003, the University of Louisville and Jewish Hospital Cardiovascular Innovation Institute (the Institute) was incorporated with the purpose including, but not limited to, the development and operation of a world-class institute to test, clinically evaluate, and develop heart assist devices, biosensors, and related technologies to improve the care for patients with heart disease.

The University entered into a Master Facility Agreement with Jewish Hospital to set forth the principles regarding the facility to support the Institute. The Master Facility Agreement called for a research building to be jointly built by the University and Jewish Hospital on land owned by the University. Jewish Hospital has transferred the use of a portion of the building, through a lease, to the Institute or to the University, for exclusive use by the Institute.

17. Leases

The University has entered into operating leases related to academic, administrative and research facilities. The majority of the leases are for a term of one to three years. Leases with a longer term are described below.

The University has operating lease agreements related to the use of athletic facilities. Under these lease agreements, the University's rights have been assigned to the Association. These leases are described below.

a. Norton's Children's Hospital

The University has leased space in Norton's Children's Hospital since 1970. The current lease has annual lease payments of $14 thousand through 2069.

b. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building. The University's rights under this agreement have been assigned to the Association. The lease has an initial term of 26 years, ending June 30, 2023. Annual lease payments range from $25 thousand to $66.5 thousand. Total lease expense for each of the years ended June 30, 2018 and 2017 amounted to approximately $61 thousand.

c. Central Station, LLC

The Association has entered into a lease agreement with AAF-Louisville, LLC (d/b/a Central Station, LLC), a related party, for use of the Central Station Office Building. The lease has an initial term of 21 years, ending September 30, 2026. Annual lease payments started at approximately $47,000, and are subject to increases based on increases in the CPI. Additional space was added, for a period of 10 years, ending December 31, 2024 with annual payments starting at approximately $80,000, subject to increase each year. Total lease expenses during the years ended June 30, 2018 and 2017 amounted to approximately $168 thousand and $167 thousand, respectively.

d. Louisville Arena Authority, Inc.

In July 2008, the Association entered into a lease agreement with the Arena Authority. The lease has an initial term of 36 years.

In July 2017 an amendment of the lease was signed extending the term through 2054 and amending the annual rents to include an additional payment of $2.4 million along with the calculated annual net payment as described below. Annual lease payments are equal to the greater of 10% of gross ticket sales or a minimum lease amount of $10 thousand per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of $5 thousand for any other Association sponsored event; and, as payment for private suites, 12% of net private suite revenue. Total lease expense during the years ended June 30, 2018 and 2017 amounted to approximately $6.0 million and $3.4 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during each of the years ended June 30, 2018 and 2017 amounted to approximately $0.5 million each year.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50% of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25% of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50% of all rental/commission payments received in connection with the gift shop and its operations, and 50% of any additional merchandise revenue received from any source other than the gift shop; (c) 50% of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3% of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage. Total lease revenue during the years ended June 30, 2018 and 2017 amounted to approximately $1.3 million and $1.4 million, respectively.

e. Christ Church Cathedral

In July 2017 the Association executed an Agreement with Louisville Metro Government for a ground lease of Churchill Park athletic fields for an initial term of fifty years with annual payments of $15 thousand per year for the term of the lease. The Association also executed an agreement to acquire reversionary interest in the properties for an initial payment of $0.3 million and payments of $50 thousand over ten years beginning July 31, 2018.

a. Future Minimum Lease Payments

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

For the year ending June 30,	Lease Payment Due
2019	$ 6,093
2020	4,880
2021	3,359
2022	3,313
2023	2,741
2024-2028	12,910
2029-2033	12,241
2034-2038	12,241
2039-2043	12,241
2044-2048	12,241
2049-2053	12,241
2054-2058	2,561
2059-2063	141
2064-2068	126
2069-2072	13
Future minimum lease payments	$ 97,342

18. Commitments and Contingencies

a. Commitments

At June 30, 2018, the University had approximately $35.0 million in encumbrances outstanding for future expenditures. As part of the entrance into the Atlantic Coast Conference, the Association committed to an unspecified amount of revenue to be withheld.

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. Federal Investigation

In September 2017, the University was informed of a federal investigation into the actions of certain University employees and their recruiting practices related to the men's basketball program. No allegations have been made directly against the University at this time. The outcome of the investigation, and any potential impact on the financial position of the Association cannot be estimated at the time of issuance of the audited financial statements.

d. Government Grants

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

e. Guarantees

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

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.

19. Component Units

a. Blended Component Units – Combined Condensed Statements

The combining schedules of the University, the Research Foundation and the Association as of June 30, 2018 and 2017, are as follows on the following pages (in thousands):

Condensed Statements of Net Position

	2018			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 96,697	$ 44,760	$ 52,633	$ 194,090
Capital assets	695,291	57,680	218,424	971,395
Other noncurrent assets	72,876	6,443	50,623	129,942
Total assets	864,864	108,883	321,680	1,295,427
Deferred outflows of resources	6,874	1,240	1,566	9,680
Current liabilities	55,506	56,723	61,058	173,287
Due to University	(106,497)	-	106,497	-
Other noncurrent liabilities	313,169	32,348	17,339	362,856
Total liabilities	262,178	89,071	184,894	536,143
Deferred inflows of resources	57,291	2,722	1,262	61,275
Net investment in capital assets	518,569	57,690	124,765	701,024
Restricted-nonexpendable	-	-	1,633	1,633
Restricted-expendable	23,754	27,500	28,368	79,622
Unrestricted	9,946	(66,860)	(17,676)	(74,590)
Total net position	$ 552,269	$ 18,330	$ 137,090	$ 707,689

	2017			
	University	Research Foundation	Athletic Association	Total
Current assets	$ 108,580	$ 37,763	$ 69,448	$ 215,791
Capital assets	653,542	61,726	176,676	891,944
Other noncurrent assets	89,536	6,374	81,451	177,361
Total assets	851,658	105,863	327,575	1,285,096
Deferred outflows of resources	5,733	-	1,679	7,412
Current liabilities	71,948	40,526	59,449	171,923
Due to University	(104,284)	-	104,284	-
Other noncurrent liabilities	296,480	15,515	10,940	322,935
Total liabilities	264,144	56,041	174,673	494,858
Deferred inflows of resources	48,579	-	857	49,436
Net investment in capital assets	473,832	61,726	124,758	660,316
Restricted-nonexpendable	-	-	1,633	1,633
Restricted-expendable	31,679	24,465	28,681	84,825
Unrestricted	39,157	(36,369)	(1,348)	1,440
Total net position	$ 544,668	$ 49,822	$ 153,724	$ 748,214

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

	2018			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 217,395			$ 217,395
Clinical services and practice plan	13,769	$ 248,244		262,013
Grants and contracts	(153)	98,424		98,271
Facilities and administrative cost recoveries	-	27,035		27,035
Other operating revenue	29,889	6,225	$ 76,491	112,605
Total operating revenues	260,900	379,928	76,491	717,319
Depreciation	36,497	6,537	5,746	48,780
Other operating expenses	449,545	421,719	113,122	984,386
Total operating expenses	486,042	428,256	118,868	1,033,166
Operating loss	(225,142)	(48,328)	(42,377)	(315,847)
State appropriations	132,959	-	-	132,959
Gifts	1,167	503	28,927	30,597
Interest on capital asset-related debt	(10,469)	-	(320)	(10,789)
Other nonoperating revenues	7,016	48,159	(988)	54,187
Capital appropriations	43,975	-	-	43,975
Capital gifts	-	-	393	393
Contributions from affiliates, net	67,608	-	-	67,608
Transfers	15,220	(15,480)	260	-
Total nonoperating revenues	257,476	33,182	28,272	318,930
Change in net position	32,334	(15,146)	(14,105)	3,083
Net position - beginning of year	544,668	49,822	153,724	748,214
Application of accounting change	(24,733)	(16,346)	(2,529)	(43,608)
Net position - beginning of year, as restated	519,935	33,476	151,195	704,606
Net position - end of year	$ 552,269	$ 18,330	$ 137,090	$ 707,689

	2017			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 221,626			$ 221,626
Clinical services and practice plan	89,930	$ 245,135		335,065
Grants and contracts	430	89,728		90,158
Facilities and administrative cost recoveries	-	25,064		25,064
Other operating revenues	56,184	3,209	$ 72,756	132,149
Total operating revenues	368,170	363,136	72,756	804,062
Depreciation	35,834	7,072	5,597	48,503
Other operating expenses	515,861	408,591	98,582	1,023,034
Total operating expenses	551,695	415,663	104,179	1,071,537
Operating loss	(183,525)	(52,527)	(31,423)	(267,475)
State appropriations	134,508	-	-	134,508
Gifts	247	886	28,524	29,657
Interest on capital asset-related debt	(7,980)	-	(920)	(8,900)
Other nonoperating revenues	4,340	47,236	351	51,927
Capital appropriations	21,608	-	-	21,608
Capital gifts	168	-	16,832	17,000
Voluntary separation plan expense	-	-	-	-
Contributions from affiliates, net	52,065	(2,054)	387	50,398
Transfers	5,671	(5,671)	-	-
Total nonoperating revenues	210,627	40,397	45,174	296,198
Change in net position	27,102	(12,130)	13,751	28,723
Net position - beginning of year	517,566	61,952	139,973	719,491
Net position - end of year	$ 544,668	$ 49,822	$ 153,724	$ 748,214

Condensed Statements of Cash Flows

	2018			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (168,889)	$ (48,963)	$ (30,162)	$ (248,014)
Noncapital financing activities	234,899	33,359	37,659	305,917
Capital and related financing activities	(44,600)	(2,534)	(39,230)	(86,364)
Investing activities	4,527	39	1,174	5,740
Net (decrease)/increase in cash and cash equivalents	25,937	(18,099)	(30,559)	(22,721)
Cash and cash equivalents, beginning of year	75,459	(21,827)	85,744	139,376
Cash and cash equivalents, end of year	$ 101,396	$ (39,926)	$ 55,185	$ 116,655

	2017			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (202,329)	$ (26,890)	$ (32,517)	$ (261,736)
Noncapital financing activities	107,596	34,416	112,579	254,591
Capital and related financing activities	31,600	(2,877)	(43,781)	(15,058)
Investing activities	8,246	57	1,427	9,730
Net increase/(decrease) in cash and cash equivalents	(54,887)	4,706	37,708	(12,473)
Cash and cash equivalents, beginning of year	130,346	(26,533)	48,036	151,849
Cash and cash equivalents, end of year	$ 75,459	$ (21,827)	$ 85,744	$ 139,376

b. 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. 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until donor stipulations are fulfilled.

The composition of net assets by type of endowment fund at June 30, 2018 and 2017, were:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Donor-restricted endowment funds	**$ (26,820)**	**$ 281,828**	**$ 461,069**	**$ 716,077**
Board-designated endowment funds	**76,111**	**-**	**-**	**76,111**
Total	**$ 49,291**	**$ 281,828**	**$ 461,069**	**$ 792,188**

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Donor-restricted endowment funds	$ (25,797)	$ 281,436	$ 455,738	$ 711,377
Board-designated endowment funds	69,247	-	-	69,247
Total	$ 43,450	$ 281,436	$ 455,738	$ 780,624

Changes in endowment net assets for the years ended June 30, 2018 and 2017 were:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In Thousands)		
Endowment net assets, beginning of year	**$ 43,450**	**$ 281,436**	**$ 455,738**	**$ 780,624**
Investment return:				
Investment and endowment income	**1,556**	**3,945**	**-**	**5,501**
Net appreciation	**13,269**	**32,138**	**-**	**45,407**
Net appreciation of funds held in trust by others	**-**	**-**	**3,479**	**3,479**
Total investment return	**14,825**	**36,083**	**3,479**	**54,387**
Contributions	**351**	**317**	**3,790**	**4,458**
Appropriations	**(8,313)**	**(38,305)**	**-**	**(46,618)**
Other changes	**(1,022)**	**2,297**	**(1,938)**	**(663)**
Endowment net assets, end of year	**$ 49,291**	**$ 281,828**	**$ 461,069**	**$ 792,188**

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)		
Endowment net assets, beginning of year	$ 38,753	$ 250,711	$ 449,518	$ 738,982
Investment return:				
Investment and endowment income	1,013	3,549	-	4,562
Net appreciation	16,852	45,632	-	62,484
Net appreciation of funds held in trust by others	-	-	5,646	5,646
Total investment return	17,865	49,181	5,646	72,692
Contributions	649	918	3,227	4,794
Appropriations	(7,368)	(27,168)	-	(34,536)
Other changes	(6,449)	7,794	(2,653)	(1,308)
Endowment net assets, end of year	$ 43,450	$ 281,436	$ 455,738	$ 780,624

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2018 and 2017, consisted of:

	2018	2017
	(In Thousands)	
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UPMIFA	**$ 461,069**	$ 455,738
Temporarily restricted net assets - term endowment funds	**9,310**	7,964

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with US GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to approximately $26.8 million and $25.8 million at June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

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 achieves a minimum net total return which is equal to the Foundation’s spending rate plus inflation without the assumption of excessive investment risk. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized).

The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within acceptable risk constraints.

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year a percentage of certain endowment funds' average market values over the prior three years through the calendar year-end preceding the year in which expenditure is planned. The Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University.

In March 2017, the Board of the Foundation approved reducing the spend policy from 5.5% to 4.09% for fiscal year 2018 for support to the academic units which includes the association and allocated an additional 1.42% (previously 1.98%) for overall fundraising efforts of the Foundation as well as strategic priorities identified by the then Interim President of the University with the understanding the policy exists to reduce or eliminate the unspent carryover. The spend policy remains based on a three-year moving average of market values as of December 31.

In March 2018, the Board of the Foundation approved a 4.2% spending policy for the fiscal year 2019 for support to the academic units and allocated 1.3% for overall fundraising efforts and operations of the Foundation. The spending policy remains based on a three-year moving average of certain market values as of December 31.

The Foundation has adopted an investment objective whereby the average annual return over the long term should equal the rate of inflation (measured by the three-year moving average of the Gross Domestic Product (GDP) Deflator) plus the average level of spending from total endowment assets. The annual return for the total endowment assets was 7.1% and 5.4% in 2018 and 2017, respectively.

Included within the endowment amounts shown above of $792.2 million and $780.6 million as of June 30, 2018 and 2017, respectively, are certain funds which are not included in the Foundation's spending policy. For the years ended June 30, 2018 and 2017, such funds include certain donor-designated expendable gift funds, amounting to $70.8 million and $63.8 million, respectively, loans to affiliates of the University and the Foundation of $45.9 million and $48.6 million, respectively, and funds held in trust by others of $58.7 million and $55.3 million, respectively. See Note 8 for additional information regarding funds held in trust by others and Note 13 for additional information regarding related-party transactions.

2. Investments and Investment Income

Investments as of June 30, 2018 and 2017, are as follows:

	2018	2017
	(In Thousands)	
Cash equivalents	**$ 17,904**	$ 5,242
Alternative investments:		
Hedge funds	**152,019**	170,241
Investments in partnerships	**363,837**	368,815
Mutual funds:		
Equity	**43,499**	40,384
Fixed income	**46,908**	50,286
Marketable alternatives:		
Domestic marketable equity securities	**24,235**	36,501
Marketable debt securities:		
Agency bonds	**17,406**	6,426
US Treasury	**19,514**	5,027
Total investments	**$ 685,322**	**$ 682,922**

Restricted investments are restricted by bond indenture for payment of debt service and repairs and replacement. Restricted investments as of June 30, 2018 and 2017, are as follows:

	2018	2017
	(In Thousands)	
Cash equivalents	**$ 3,572**	$ 6,100
US agency obligations	**1,670**	-
Total	**$ 5,242**	**$ 6,100**

Total investment return for the years ended June 30, 2018 and 2017, is reflected in the consolidated statements of activities and changes in net assets as follows (in thousands):

	2018	2017
	(In Thousands)	
Alternative investments net return	**$ 44,674**	$ 59,418
Dividends and interest	**2,512**	1,141
Endowment income	**544**	2,619
Net realized gain on investments	**9,262**	3,364
Net unrealized gain on investments	**412**	8,614
Total	**$ 57,404**	**$ 75,156**

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

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

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

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

a. <u>Alternative Investments</u>

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2018 and 2017, consisted of the investments on the following page (in thousands):

	2018			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	**$ 152,019**	**$ 12,781**	**Various from quarterly to illiquid**	**Various from 45 to 90 days**
Investments in partnerships	**363,837**	**67,459**	**Various from monthly to illiquid**	**Various from 30 to 90 days**

	2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	$ 170,241	$ 6,433	Various from quarterly to illiquid	Various from 45 to 90 days
Investments in partnerships	368,815	63,882	Various from monthly to illiquid	Various from 30 to 90 days

3. Disclosures About Fair Value of Assets and Liabilities

The tables on the following pages present the fair value measurements of assets by class recorded at fair value on a recurring basis under ASC 820 at June 30, 2018 and 2017:

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Cash	**$ 6,261**	**$ -**	**$ -**	**$ 6,261**
Cash equivalents	**17,904**	**-**	**-**	**17,904**
Mutual funds:				
Equity	**43,499**	**-**	**-**	**43,499**
Fixed income	**46,908**	**-**	**-**	**46,908**
Domestic marketable equity securities	**24,235**	**-**	**-**	**24,235**
Marketable debt securities:				
Agency bonds	**-**	**17,406**	**-**	**17,406**
U.S. Treasury	**19,514**	**-**	**-**	**19,514**
Total investments	**152,060**	**17,406**	**-**	**169,466**
Funds held in trust by others	**-**	**58,770**	**-**	**58,770**
Restricted investments:				
Cash equivalents	**3,572**	**-**	**-**	**3,572**
U.S. Treasury	**1,670**	**-**	**-**	**1,670**
Total cash, investments, funds held in trusts by others, and restricted investments	**$ 163,563**	**$ 76,176**	**$ -**	**$ 239,739**

Investments at NAV:	
Hedge funds	**152,019**
Investments in partnerships	**363,837**
	$ 755,595

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Cash	$ 8,632	$ -	$ -	$ 8,632
Cash equivalents	5,242	-	-	5,242
Mutual funds:				
Equity	40,384	-	-	40,384
Fixed income	50,286	-	-	50,286
Domestic marketable equity securities	36,501	-	-	36,501
Marketable debt securities:				
Agency bonds	-	6,426	-	6,426
U.S. Treasury	5,027	-	-	5,027
Total investments	137,440	6,426	-	143,866
Funds held in trust by others	-	55,293	-	55,293
Restricted investments:				
Cash equivalents	6,100	-	-	6,100
Total cash, investments, funds held in trusts by others, and restricted investments	$ 152,172	$ 61,719	$ -	$ 213,891
Investments at NAV:				
Hedge funds				170,241
Investments in partnerships				368,815
				$ 752,947

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. The Foundation does not have any assets classified as Level 3 of the fair value hierarchy.

There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

a. Cash Equivalents

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

b. Investments

Level 1 securities include cash, equity security and fixed income mutual funds, along with domestic equity securities. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows, which would be classified as Level 2. Level 2 securities include U.S. government agency bonds.

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2018 and 2017. The 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.

d. Restricted Investments

Level 1 securities include money market accounts, which are based on quoted market prices in an active market and Level 2 securities include U.S. Treasury and agency bonds. The Level 2 securities are based on a pricing service and use inputs as described above.

4. Guarantees

a. Loans

As of June 30, 2018 and 2017, ULF guaranteed four loans related to certain University student organizations including fraternities and sororities. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection of expenses and costs. The total amount approved for loans was approximately $1.6 million, with $856,000 and $983,000 outstanding, respectively, as of June 30, 2018 and 2017.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One, LLC. As of June 30, 2018 and 2017, the amount under guarantee was $7.6 million and $7.8 million, respectively.

In February 2015, ULF guaranteed a portion of PGxl line of credit agreement. The line of credit was also guaranteed by PGxl's two founders who are also faculty members at the University of Louisville. The line of credit was secured by the assets of PGxl.

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. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities which 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 which result from gifts to the Trust. The market value of the Trust was approximately $25.9 and $23.6 million as of June 30, 2018 and 2017, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately $32.8 million and $31.7 million as of June 30, 2018 and 2017, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2018 and 2017, the Foundation recorded income of $2.3 million and a loss of $5.6 million, respectively, from these trusts and is in changes in funds held in trust on the consolidated statements of activities and changes in net assets.

6. 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. The Foundation serves in an agency capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2018 and 2017, the Foundation held approximately $13.6 million and $25.3 million for the Association's investment purposes, respectively.

The Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing health care services. As of June 30, 2018 and 2017, the Foundation held approximately $8.2 million for Jewish Hospital's investment purposes.

The Foundation was the recipient of endowed funds, the income of which shall be used in support of the Louisville Orchestra. As of June 30, 2018 and 2017, the Foundation held approximately $0.2 million for the benefit of the Louisville Orchestra.

The Foundation, acting in an agent capacity, does not reflect earnings on investments held in trust for others in the consolidated statements of activities as these earnings are distributed to the owners of the funds.

7. Transactions with ULREF

In 2018 and 2017, there were approximately $-0- and $1.2 million, respectively, of contributions directly to ULREF that did not relate to property transfers or the assignment of membership interests.

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.

During the year ended June 30, 2017, ULF recorded a discount on the receivable from ULREF approximating $4.8 million using a 3% imputed interest rate over a 15-year payback period. This discount is included in other expenses in the consolidated statements of activities and changes in net assets and is being amortized over a 15-year period. This discount and the estimated 15-year payback period was developed during the year ended June 30, 2017, as there was more evidence of a reasonable payback period from ULREF. At June 30, 2018 and 2017, the net receivable from ULREF is $21.9 million and $24.0 million and is included within the assets of the endowment of the Foundation as due from the University of Louisville Real Estate Foundation in the consolidated statements of position.

On January 27, 2015, 220 South Preston, LLC (Preston), whose sole member is ULREF, entered into a Master Parking Lease Agreement with the Foundation whereby the Foundation will lease certain parking spaces in the garage from ULREF, and in exchange the Foundation will pay an amount to ULREF that would cause the annual debt service coverage ratio to be not less than 1.25 to 1.00 per month. The term of this agreement began on January 27, 2015, and will continue for a period of not earlier than the maturity date, December 2018, or earlier retirement of the garage construction loan. As of June 30, 2018 and 2017, the Foundation payments to Preston are insignificant.

c. University of Louisville Real Estate Foundation.

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

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

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

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

1. Capital Assets

Capital assets at June 30, 2018 and 2017, consist of the following (in thousands):

	2018	2017
Land and land improvements	**$ 56,807**	$ 56,235
Buildings	**41,731**	41,731
Building improvements	**1,779**	1,097
Tenant finish	**3,526**	2,703
Furniture, fixtures, and equipment	**1,477**	1,475
	105,320	103,241
Accumulated depreciation	**(6,337)**	(4,376)
Construction-in-progress	**1,117**	3,807
	$ 100,100	$ 102,672

2. Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2018 and 2017, were as follows on the following page (in thousands):

	2018		2017	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets and liabilities:				
In-place leases	**$ 869**	**$ (372)**	$ 1,268	$ (521)
Above-market leases	**2,948**	**(425)**	3,015	(300)
Tax incremental financing	**116,600**	**(12,329)**	116,600	(7,966)
Below-market leases	**(1,326)**	**620**	(1,449)	465

Amortization expense for each of the years ended June 30, 2018 and 2017, was approximately $4.5 million.

At June 30, 2018, 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**	**Below-Market Leases**
2019	$ 166	$ 127	$ 4,364	$ (120)
2020	93	125	4,364	(57)
2021	24	125	4,364	(14)
2022	21	125	4,364	(14)
2023	21	125	4,364	(14)
Thereafter	172	1,896	82,451	(487)
Total	$ 497	$ 2,523	$ 104,271	$ (706)

3. Debt

Debt in the consolidated statements of financial position at June 30, 2018 and 2017 consists of the following on the following page (in thousands):

	Description	Fiscal Year of Maturity	2018	2017
Construction Loan Agreement – 220 Preston, LLC	Variable rate based on London Interbank Offered Rate (LIBOR) plus 1.50%, with monthly interest-only payments commencing February 2015 and principal payment at maturity	2018	**$ 9,340**	$ 9,340
Note payable – KYT, LLC	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 and principal payment at maturity	2022	**16,000**	19,500
Line of credit – ULREF	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 through maturity	2019	**–**	7,000
	Debt		**25,340**	35,840
	Less debt issuance costs		**(63)**	(93)
	Total debt		**$ 25,277**	$ 35,747

Preston has a construction loan agreement with a bank that has a maximum draw available amount of $10.1 million, which is secured by Preston's real estate and assignment of lease. The terms of the agreement require Preston to maintain a debt service coverage ratio of 1.00 to 1.00, which is measured annually on December 31, commencing on December 31, 2016. At June 30, 2018, Preston was in compliance with this debt requirement. The principal is due in full on December 31, 2018.

In June 2016, KYT entered into a note payable with a financial institution to refinance $19.5 million borrowed in relation to the purchase of property adjacent to the University in 2008. The principal is due in full on July 2021. The note is collateralized by mortgages on properties and a guarantee from AAF 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, 2018.

In June 2016, ULREF entered into a $7.0 million line of credit agreement with a financial institution, which matured on July 1, 2018. The line of credit was repaid on June 29, 2018.

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

Year ending June 30:	
2019	$ 9,340
2020	–
2021	–
2022	16,000
2023	–
Thereafter	–
	$ 25,340

4. Investment in Preston

In December 2014, ULREF acquired an 80% ownership in Preston through the contribution of land and $1.3 million of cash. NTS acquired a 20% interest in Preston through the contribution of cash of $332,000. ULREF and NTS have entered into an Operating Agreement, a Development Agreement between Preston and NTS DevCo, and a Management Agreement between Preston and NTS Mgt Co whereby NTS will develop, manage, and operate the parking garage in exchange for a development fee, a property management fee based on gross collected revenue, and an asset management fee. The initial term of the Management Agreement is 10 years and Preston can terminate the agreement without cause upon 190 days' written notice at any time, and in such case NTS may require ULREF to purchase NTS's interest at a put price as defined in the agreement.

In addition, on January 27, 2015, Preston entered into a Master Parking Lease Agreement with the Foundation whereby the Foundation will lease certain parking spaces in the garage from ULREF, and in exchange will pay to ULREF an amount that would cause the debt service coverage ratio to be not less than 1.25 to 1.00 per month. The term of this agreement began on January 27, 2015, and will continue for a period of not earlier than the maturity date or earlier retirement of the garage construction loan.

As the majority member, ULREF consolidates its 80% interest in Preston.

The following table summarizes the carrying amount of the assets and liabilities of Preston included in the consolidated statements of financial position at June 30, 2018 and 2017 (in thousands):

	2018	2017
Cash	**$ 149**	$ 119
Accounts receivable	**10**	10
Other assets	**2**	4
Capital assets, net	**16,013**	16,552
Total assets	**$ 16,174**	$ 16,685
Accounts payable and accrued liabilities	**$ 119**	$ 93
Note payable	**9,338**	9,340
Total liabilities	**$ 9,457**	$ 9,433

The operations of the non-controlling interest are not considered material for the years ended June 30, 2018 or 2017.

5. Leasing Activities

The ULREF leases space to tenants under noncancellable operating leases. As of June 30, 2018, the ULREF had various leases expiring in one to 10 years, through 2027. These leases generally require the Real Estate Foundation to pay all executory costs (property, taxes, maintenance and insurance).

Rental revenue at June 30, 2018 and 2017, was as follows on the following page (in thousands):

	2018	2017
Base minimum rents	**$ 4,401**	$ 4,227
Common area maintenance	**9**	166
	$ 4,410	$ 4,393

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

Year ending June 30:	
2019	$ 1,878
2020	1,685
2021	1,474
2022	1,291
2023	1,015
Thereafter	2,455
	$ 9,798

ULREF provides university tenants with free or discounted rents. For the years ended June 30, 2018 and 2017, the amounts of free or discounted rents recognized as contributions to university tenants were approximately $2.2 million and $1.3 million, respectively. These amounts are included in contribution expense on the consolidated statements or activities and changes in net assets.

d. University of Louisville Physicians, Inc.

University of Louisville Physicians, Inc. (the Organization or ULP) was established in August 2011 and is organized as a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University of Louisville School of Medicine (the School). ULP is organized and operates exclusively for educational, charitable and scientific purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code (IRC), by: [1] providing professional medical services in a variety of medical specialties and disciplines in accordance with the Organization's charitable mission; [2] strengthening and broadening the range of skills and patient populations available for physicians who are the School's faculty to carry on patient care, teaching and research; and [3] aiding and supporting the School and its clinical departments in the furtherance of their charitable, educational and scientific mission and activities. The physicians providing clinical services through the ULP are organized into clinical departments which are identical to the clinical departments of the School. ULP provides medical care primarily to residents of Louisville and Jefferson County, Kentucky and surrounding areas. Although the University does not control ULP or the timing of receipts from ULP, because the University and ULP share certain common management and staff, creating a degree of financial integration, ULP is considered a component unit of the University and is discretely presented in the University's financial statements.

Operations began on January 1, 2012, when the first two physician groups transitioned their practices into ULP. Through June 30, 2017, there were seventeen clinical departments integrated into ULP.

Each clinical department was organized as one or more separate legal entities and each was integrated into ULP under a separate transition agreement. Typically, the agreements were structured as follows: ULP purchased certain significant fixed assets of the clinical departments in a manner similar to any other asset purchase and obtained various other employment agreements, licenses, permits, leases and contracts for no purchase price. The clinical departments retained various operating assets including cash, accounts receivable, benefit plan assets and other assets. ULP and each clinical department agreed on the preexisting debts of the clinical departments; some were transferred to ULP, some were retained by the clinical departments and others were paid-off or acquired by ULP and subsequently repaid by the clinical departments.

Complete financial statements for ULP can be obtained from the administrative offices at UofL Physicians, 300 E. Market Street, Louisville, KY 40202.

1. Charity Care

   ULP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because ULP does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care charges totaled \$1.6 million and \$1.3 million for the years ended June 30, 2018 and 2017, respectively. Management has estimated its cost incurred to provide charity care to be approximately \$0.8 million and \$0.6 million for each of the years ended June 30, 2018 and 2017, respectively.

2. Investment in Kentuckiana Medical Reciprocal Risk Retention Group

   KMRRRG is the Organization's carrier for liability insurance coverage and is a reciprocal captive risk retention group.

   The investment in KMRRRG is accounted on the equity method, which as of June 30, 2018 and 2017 was \$20.5 million and \$18.8, respectively. KMRRRG's income and losses are allocated to each participating subscriber based on each subscriber's pro rata share of annual premiums paid.

   Should ULP withdraw from KMRRRG, a portion of its investment in KMRRRG may, as determined by a Subscribers' Advisory Committee, be retained by KMRRRG to cover the Organization's allocation of losses for up to five years. Any repayment of the Organization's investment by KMRRRG must also be approved by the Kentucky Department of Insurance.

   The investment in KMRRRG is accounted for on the equity method of accounting under which ULP's share of KMRRRG's net income (loss) is recognized in the statements of activities and added to (deducted from) the investment account. Dividends received from KMRRRG are treated as a reduction of the investment account. Management has concluded that the equity method of accounting for this investment is appropriate because it participates in the management of KMRRRG and has the ability to significantly influence the operating and financial policies of KMRRRG and because ULP's 6.12% membership is considered more than a nominal share of the KMRRRG.

3. Net Patient Service Fees Revenue

ULP has agreements with third-party payers that provide for payments at amounts different from its established rates. Contractual adjustments represent the difference between billing at established rates and amounts reimbursed by third-party payers.

A summary of gross and net professional clinical service fee revenue as of June 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Gross patient service revenue	$ 375,929	$ 361,484
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	(212,040)	(215,034)
Provision for uncollectible accounts	(51,589)	(39,833)
	(263,629)	(254,867)
Net patient service revenue	$ 112,300	$ 106,617

e. University Medical Center, Inc.

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 the University of Louisville (UofL) were the original members of the Corporation. Effective July 1, 2007, Norton and Jewish resigned from the Board and UMC reverted to a nonmember, nonprofit corporation under KRS Chapter 273.

The business and affairs of UMC are conducted by its Board of Directors. The Board of Directors, including the Chair of the Board, are appointed by the President of the University of Louisville. There are 13 voting directors. The Board may also appoint Advisory Directors for one-year terms to attend meetings and serve on committees but they may not vote. The Corporation is a component unit of the University of Louisville.

1. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

The Corporation estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Corporation.

2. Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Of the Corporation's total operating expenses (approximately $554.2 million), an estimated $3.7 million arose from providing services to charity patients during 2018. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue.

3. Deposits and Investments

Deposits and investments are comprised of the following at June 30, 2018:

	Fair Value	Amortized Historical Cost
Cash and cash equivalents	$ 81,269,699	$ 81,269,699
Money market deposit accounts	26,820,589	26,820,589
US government obligations	8,633,249	8,531,073
Mortgage backed securities	9,574,528	9,572,086
Municipal bonds	485,308	485,516
Mutual funds	49,363,741	47,878,051
Common stocks	2,317,887	2,254,069
Mortgage bonds	3,956,661	3,953,726
Asset backed bonds	5,366,537	5,359,141
Corporate bonds	21,517,037	21,573,518
Limited partnerships	9,613,581	9,400,000
Total	$ 218,918,817	$ 217,097,468

	Fair Value	Amortized Historical Cost
Included in the balance sheet captions:		
Cash and cash equivalents	$ 80,716,818	$ 80,716,818
Investments	138,201,999	136,380,650
Total	$ 218,918,817	$ 217,097,468

4. Investment in Joint Ventures

The Corporation has a 30.9% ownership in a joint venture, Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG). The purpose of this joint venture is for the provision of professional liability coverage to its subscribers, which includes the Corporation and certain University of Louisville Medical School Practice Association members, on a claims-made basis through KMR LLC. The Corporation accounts for its investment in KMRRRG under the equity method. The Corporation contributed certain assets in exchange for its interest in the joint venture. The carrying amount of the joint venture as of June 30, 2018 was approximately $11.9 million.

5. Estimated Amounts Due to Third-Party Payors

Net patient service revenue for services provided to patients who have third-party payor coverage is recognized based on contractual rates from the services rendered. The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. As a result, the provision for bad debt is presented as a deduction from patient service revenue net of contractual provisions and discounts. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue when services are provided. Based on historical experiences, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Net patient accounts are reduced by an allowance for uncollectible accounts based upon the historical collection experience adjusted for current environmental risks and trends for each major payor source. The Corporation restated its charity care policy effective July 1, 2017.

a. Medicare and Medicaid

Inpatient hospital services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The diagnosis upon which payment is based is subject to review by Medicare representatives. Medicare payments for most outpatient services are made based upon the patient's procedures and diagnosis. Medicare payments for graduate medical education (GME), indirect medical education (IME), and certain bad debts for beneficiary deductible and coinsurance are made based upon reimbursable costs subject to caps. Such reimbursable costs were determined from annual cost reports filed, which are subject to audit. Provision has been made for the estimated effects of reviews and audits. The Hospital increased net patient service revenue by approximately $483 thousand in 2018, as a result of changes in estimates related to prior year cost report statements and other payor issues.

The Medicaid program reimburses the Corporation on a prospectively determined rate per patient day for inpatient services and on a combination of fee for services and on the basis of cost, as defined, for outpatient services. Provision has been made for the estimated effects of reviews and audits by Medicaid.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. The Corporation believes it is in substantial compliance with all applicable laws and regulations, and that no pending or threatened investigations will have a material adverse effect on the financial position of the Corporation. However, compliance with health care industry laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

b. Disproportionate Share Hospital

The Corporation's high Medicaid utilization allows it to be designated as a disproportionate share hospital. It is party to intergovernmental transfers made by UofL on the Corporation's behalf, and receives amounts from Medicaid as a disproportionate share hospital. The disproportionate share payments are received in a lump sum and are amortized over the federal fiscal year (October – September). The Corporation included the amortization of these payments in net patient service revenue in the statements of operations and changes in net position. Unamortized amounts under these programs are included in the third party payor settlements on the balance sheets.

c. Passport Health Plan

Passport Health Plan (Passport) is a comprehensive risk-based entity that 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 holds a 12.5% sponsorship in Passport.

d. Urban Trauma Payment

Urban Trauma payment is a Kentucky Medicaid payment for hospitals designated as disproportionate share hospitals. Urban Trauma payments are received monthly by the Corporation from Passport and are recognized over the state fiscal year (July – June). Urban Trauma payment is included in net patient service revenue in the statements of operations and changes in net assets.

e. Other

The Corporation has also entered into payment agreements with certain commercial insurance carriers and health maintenance and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

6. Net Patient Service Revenue

Net patient service revenue consists of the following

		2018
Patient Revenue:		
Inpatient services	$	1,215,183,788
Outpatient services		1,335,388,462
Total patient revenue		2,550,572,250
Revenue deductions:		
Provision for contractual allowances		2,064,811,106
Provision for bad debt allowances		18,148,090
Charity care		16,936,571
Total revenue deductions		2,099,895,767
Total net patient service revenue	$	450,676,483

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

	6/30/2018
Total OPEB liability	
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 Liabiblity	$ (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.