Consolidated Financial Statements

University of Louisville Foundation, Inc. and Affiliates
Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

University of Louisville Foundation, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

Contents

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Report of Independent Auditors

The Board of Directors
University of Louisville Foundation, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of the University of Louisville Foundation, Inc. and Affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Louisville Foundation, Inc. and Affiliates at June 30, 2018 and 2017, and the results of their activities and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Ernst + Young LLP

September 26, 2018

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.	**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 consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Activities and Changes in Net Assets

(In Thousands)

Years Ended June 30, 2018 and 2017

	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 by others	**–**	–	**–**	–	**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 unitrust 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 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 consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2018	**2017**
Operating activities		
Changes in net assets	**$ 17,663**	$ 42,907
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Net change in unrealized gain on investments and alternative investments net return	**(45,630)**	(67,149)
Changes in funds held in trust by others	**(3,479)**	(5,647)
Depreciation and amortization expense	**4,744**	5,719
Loss on disposals of capital assets	**243**	–
Loss on contributions receivable	**2,422**	7,213
Contributions restricted for long-term investment	**(3,790)**	(4,006)
Changes in annuitant and unitrust funds and obligations	**1,472**	(413)
Gain on extinguishment of debt	**–**	(3,471)
Changes in assets and liabilities:		
Accounts and notes receivable, net	**(733)**	(855)
Contributions receivable, net	**2,193**	6,218
Due from the University of Louisville Real Estate Foundation, Inc.	**2,325**	4,826
Prepaid expenses and other assets	**448**	(975)
Accounts payable	**(1,522)**	1,154
Unallocated gifts	**273**	1,173
Funds held in trust for others	**(11,784)**	(430)
Other liabilities	**(2,241)**	(8,288)
Due to the University of Louisville	**(11,714)**	(3,513)
Net cash used in operating activities	**(49,110)**	(25,537)
Investing activities		
Purchases of investments	**(301,103)**	(198,356)
Proceeds from sales of investments	**345,194**	223,875
Purchases of capital assets	**–**	(1,761)
Payments on loans receivable	**–**	600
Net cash provided by investing activities	**44,091**	24,358
Financing activities		
Contributions restricted for long-term investment	**3,790**	4,006
Payments to annuitants	**(788)**	(695)
Proceeds from issuance of notes payable	**1,994**	–
Principal payments on bonds and notes payable	**(2,348)**	(2,095)
Net cash provided by financing activities	**2,648**	1,216
Net (decrease) increase in cash and cash equivalents	**(2,371)**	37
Cash and cash equivalents, beginning of year	**8,632**	8,595
Cash and cash equivalents, end of year	**$ 6,261**	$ 8,632
Supplemental cash flow information		
Cash paid for interest	**$ 3,411**	$ 3,411

See notes to consolidated financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The University of Louisville Foundation, Inc. and Affiliates (ULF or the Foundation) have been designated by the University of Louisville (the University) to receive funds derived from gifts and other sources, including funds held in trusts by others. As directed by its Board of Directors (the Board), ULF transfers funds to the University upon satisfaction of donor restrictions. In addition, a portion of the Foundation's unrestricted resources provides support for certain of the University's activities.

The Foundation owns or controls the following entities, all of which are included in the consolidated financial statements of the Foundation as of June 30, 2018 and 2017, unless otherwise noted:

ULH, Inc. (ULH) began operations on April 23, 2001, and is affiliated with ULF through certain common management and trustees. ULH leases land from the University and issues revenue bonds for student housing purposes. ULH receives, retains and disposes of real estate, and manages and operates the student housing properties it owns.

University Holdings, Inc. (UHI) (originally named Cardinal Real Estate, Inc.) is a nonstock, nonprofit corporation created in September 2007 for the benefit of and to carry out the purposes of ULF. UHI provides oversight and management support to various affiliated entities that are presented within the ULF consolidated financial statements. UHI is affiliated with ULF through certain common management and directors. The entity did not record any significant activity for the fiscal year ended June 30, 2018 and filed articles of dissolution in June 2018.

University of Louisville Development Corporation, LLC (ULDC) is a limited liability company formed in September 2007, whose sole member is ULF. Its purpose is to develop and manage certain real estate operations of ULF at the Shelby Campus of the University. UHI is the manager of ULDC. In October 2010, ULDC became a 51% owner of Campus One, LLC (Campus One). Campus One operates a commercial real estate building on the University's Shelby Campus. These investments are accounted for under the equity method, as ULDC is not considered the primary beneficiary.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

MetaCyte Business Lab, LLC (MetaCyte) is a limited liability company acquired in 2008. Its purpose is to identify and support commercially promising health science discoveries in the region. ULF is the sole member of MetaCyte, and UHI is the manager.

MetaCyte Equity Holdings, LLC (MetaCyte Equity) is a limited liability company acquired in February 2008. Its purpose is to hold the equity shares obtained by MetaCyte Equity through development with start-up corporations. MetaCyte Equity has had no activity since inception.

Minerva – Louisville, LLC (Minerva) is a limited liability company formed in September 2011, whose sole member is ULF. Its purpose is to serve as a vehicle for the efficient administration of various deferred compensation plans, agreements and understandings. There was no activity for this entity during 2018 or 2017. Minerva filed articles of dissolution in June 2018.

The Nucleus Real Properties, Inc. (TNRP) is a Kentucky not-for-profit corporation formed in July 2013, affiliated with the Foundation through a common board of directors and certain common management. TNRP's purpose is to develop the property and improvements located at the corner of Market and Shelby Streets in Louisville, Kentucky commonly known as the Atria Support Center Building, as a revenue-producing asset, in order to further the charitable and educational purposes of the Foundation and the University.

CCG, LLC (CCG) is a limited liability company formed in December 2013, whose sole member is ULF. Its purpose is to acquire and operate a first-class collegiate golf practice facility located in Shelby County, Kentucky. Formally known as the Cardinal Club, CCG is managed by the University of Louisville Athletic Association (the Association).

DCPA, LLC is a limited liability company formed in May 2014, whose sole member is ULF. Its purpose is to serve as a vehicle for the efficient administration of various deferred compensation plans, agreements and understandings.

All significant intercompany balances and transactions have been eliminated in consolidation. The Foundation is presented in the financial statements of the University as a discretely presented component unit.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates could also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes all cash and highly liquid investments that are neither internally nor externally restricted. The Foundation considers highly liquid investments to be cash and cash equivalents when they are both readily convertible to cash and so near to maturity (typically within three months) that their value is not subject to risk due to changes in interest rates. The amount of cash and cash equivalents carried on the consolidated statements of financial position represents fair value.

At June 30, 2018 and 2017, the Foundation's cash accounts exceeded federally insured limits by approximately $6.2 million and $10.2 million, respectively.

Investments and Investment Return

Investments include as a part of its portfolio investments that are restricted by donors for use in the future activities of the University. Restricted investments include assets under bond indenture agreements.

Investment securities are exposed to various risks, such as interest, 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 a change could materially affect the amounts reported in the consolidated financial statements.

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.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

All investment securities are considered trading. Included in net investment return are interest, dividends, realized gains and losses on investments and changes in the value of investments carried at net asset value (NAV).

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Alternative investments, including hedge funds, private equity funds, limited partnerships, and real estate funds, are recorded under the equity method of accounting using NAV. The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, real assets (such as real estate), and private equity investments.

Fair Value Measurements

ULF follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which defines fair value as 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 and establishes a framework for measuring fair value. ASC 820 defines a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market

1. Description of Organization and Summary of Significant Accounting Policies (continued)

participant assumptions in fair value measurements and, as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 **–** Inputs utilize quoted market prices in active markets for identical assets or liabilities that ULF has the ability to access.

- Level 2 **–** Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

- Level 3 **–** Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Investment in Joint Venture

The Foundation maintains an ownership percentage of 51% or less in a joint venture that does not require consolidation. This investment is accounted for using the equity method of accounting.

ULF, through ULDC, holds a variable interest in a joint venture accounted for under the equity method of accounting acquired through the creation of Campus One in October 2010.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

The joint venture builds and manages rental properties on the University's Shelby Campus. NTS Development Company (NTS), which is the joint venture partner and manager, may terminate the management agreement without cause upon 60 days written notice or terminate the management agreement for cause at any time upon prior written notice, and, in such case, NTS may require ULDC to purchase NTS's interest at fair value.

The Foundation has evaluated this investment as a variable interest entity (VIE) in accordance with ASC 810, *Consolidation.* A legal entity is referred to as a VIE if any of the following conditions exist: (1) the total equity investment at risk is insufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties or (2) the entity has equity investors who cannot make significant decisions about the entity's operations or who do not absorb their proportionate share of the expected losses or receive the expected returns of the entity.

A VIE's primary beneficiary is the entity that has the power to direct the VIE's significant activities and has an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. A VIE must be consolidated if it is deemed to be the primary beneficiary of the VIE.

All facts and circumstances are taken into consideration when determining whether the Foundation has variable interests that would deem it the primary beneficiary and, therefore, require consolidation of the related VIE or otherwise rise to the level where disclosure would provide useful information to the users of the Foundation's consolidated financial statements. In many cases, it is qualitatively clear based on whether the Foundation has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether the Foundation is obligated to absorb significant losses of or has a right to receive significant benefits from the VIE. In other cases, a more detailed qualitative analysis and possibly a quantitative analysis are required to make such a determination.

The Foundation monitors the unconsolidated VIE to determine whether any reconsideration events have occurred that could cause it to no longer be a VIE. The Foundation reconsiders whether it is the primary beneficiary of a VIE on an ongoing basis. A previously unconsolidated VIE is consolidated when the Foundation becomes the primary beneficiary. A previously consolidated VIE is deconsolidated when the Foundation ceases to be the primary beneficiary or the entity is no longer a VIE.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

The Foundation has concluded it is not the primary beneficiary of this joint venture, as a majority of the daily operations and key operating decisions are conducted by NTS, and therefore, the entity is not consolidated.

At June 30, 2018 and 2017, the Foundation's loss in excess of its investment and investment in the joint venture was approximately $(281,000) and $(88,000), respectively, and is included within investments in the accompanying consolidated statements of financial position.

In April 2014, the Foundation acquired 990 Class B units of Sapulpa Real Estate Holdings, LLC. The investment was funded through a note payable with CF One, LLC (CF One). The Foundation accounted for the investment using the equity method of accounting. On August 29, 2016, the Foundation unwound its ownership of these units and was relieved of its obligation under the note payable agreement with CF One.

Capital Assets

Capital assets are stated at cost or estimated market value at date of receipt from donors. Depreciation on capital assets is charged to expense using the straight-line method based on their estimated useful lives.

The estimated useful lives for each major depreciable classification of capital assets are as follows:

Buildings	40 years
Furniture and fixtures	3 to 15 years
Other plant assets	3 to 17 years

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

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flow expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. There was no impairment loss recognized during the years ended June 30, 2018 or 2017.

Funds Held in Trusts by Others

The Foundation is the beneficiary of irrevocable trust funds held by others. The Foundation has recorded the fair value of the ownership interest of the trusts as temporarily and permanently restricted net assets as appropriate.

Funds Held in Trusts for Others

The Foundation has entered into agreements with other entities to serve as agent for certain trusts. The Foundation manages these investments as a part of these agency agreements. The Foundation records these investments within investments and funds held in trusts for others on the consolidated statements of financial position. 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.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those which have donor-imposed restrictions that will expire in the future, when either the time restriction or purpose restriction has been met, and permanently restricted net assets are those which have donor-imposed restrictions that do not expire.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Donor-imposed restricted contributions are reported as unrestricted support if the restrictions are met in the same period as the funds are received.

Unrestricted Bequests

The Foundation follows the policy of designating all unrestricted bequests of $100,000 or greater as funds functioning as board-designated endowments.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. An allowance on uncollectable pledges is recorded based on such factors as collection and payment history, type of gift, and nature of fundraising. Scheduled payments past due are allowed.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recorded when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of library materials and other educational equipment and supplies from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase gift revenue by a like amount. The Foundation received approximately $3.5 million and $1.2 million of in-kind gifts for the years ended June 30, 2018 and 2017, respectively.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Rental Revenue and Deferred Rent

Rental revenue is recognized over the terms of each tenant's lease agreement. Certain of TNRP's lease agreements are structured to include scheduled and specific rent increases over the lease term. For financial reporting purposes, deferred rent consists of rents receivable from these leases recognized on a straight-line basis over the initial lease term. Accrued income from these leases reflected as deferred rent, which is included in other liabilities in the consolidated statements of financial position, was approximately $3.4 million and $3.3 million for the years ended June 30, 2018 and 2017, respectively.

Income Taxes

The Foundation and primarily all of its affiliates are recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as charitable organizations qualifying under Internal Revenue Code Section 501(c)(3). Certain of ULF's affiliates are single-member limited liability companies, which are considered disregarded entities for tax purposes.

The Foundation completed an analysis of its uncertain tax positions in accordance with applicable accounting guidance and determined there are no amounts to be recognized in the consolidated financial statements at June 30, 2018 or 2017.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. For tax-exempt entities, the Act requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions (which will not be effective until the 2019 tax year). Certain regulatory guidance provides for a measurement period of up to one year, during which the accounting for the tax effects of the Act may be completed. The Foundation may record further adjustments in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of the date of enactment. The Foundation will continue to revise and refine the calculations as additional IRS guidance is issued; however, the Foundation does not anticipate any material impact to the consolidated financial statements.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* to clarify how entities will determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. Under ASU 2018-08, entities will continue to determine whether to account for a transfer of assets as an exchange transaction by evaluating whether the resource provider receives commensurate value in exchange for the assets transferred. However, ASU 2018-08 clarifies that when the public receives the primary benefit, that benefit is not considered commensurate value to the resource provider. The guidance also clarifies that a contribution is conditional if the agreement includes both a barrier (or barriers) that must be overcome for the recipient to be entitled to the resources and a right of return for the assets transferred. For a condition to exist, it must be determined from the agreement or a document reference in an agreement that the recipient is only entitled to the transferred assets if it overcomes the barrier or barriers. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018 (including interim periods therein), with early adoption permitted. The guidance is to be applied on a modified prospective basis to agreements that have not been completed as of the effective date or that are entered into after the effective date. Retrospective application to each period presented is permitted. The Foundation adopted ASU 2018-08 effective July 1, 2018, using the modified prospective basis of accounting. As currently determined, the impact of ASU 2018-08 is not material to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for US GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, by applying either the full retrospective method or the cumulative catch-up transition method. The full retrospective method requires application of the provisions as an adjustment through unrestricted net assets.

1. Description of Organization and Summary of Significant Accounting Policies (continued)

The Foundation adopted ASU 2014-09 on July 1, 2018, using the cumulative catch-up transition method. The Foundation's process for implementation began with preliminary evaluation of ASU 2014-09 and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the American Institute of Certified Public Accountants. The Foundation has performed a preliminary analysis of revenue streams and transactions under ASU 2014-09 and, as currently determined, the impact to the consolidated financial statements upon adoption is not material as the Foundation's revenue streams and transactions (such as revenue from lease contracts and contributions received) are not covered under ASU 2014-09.

2. Due to the University

In accordance with the Foundation's memorandum of understanding with the University, the University receives and disburses monies on behalf of the Foundation. The net amount of these receipts and disbursements approximated a payable of $3.9 million and $18.3 million as of June 30, 2018 and 2017, respectively, which is recorded as an amount due to the University in the consolidated statements of financial position. Generally, the receivable or payable is cleared within the subsequent month; however, no formal agreement governs the time period in which payments are to be made. The Foundation has remitted an additional $1.1 million to the University subsequent to June 30, 2018.

For the year ended June 30, 2017, the Foundation agreed to a noncash settlement of a previous funding commitment with the University established by previous executive leadership that would cover future salary increases and related postretirement benefits of University employees. This settlement resulted in a gain totaling approximately $12.2 million and is included in other gains in the consolidated statement of activities and changes in net assets for the year ended June 30, 2017.

3. Loans Receivable, Net

Loan Receivable From Nucleus Innovation Investment Fund, LLC

In connection with TNRP's new market tax credit financing in September 2013, Nucleus Innovation Investment Fund, LLC (NIIF), an unrelated third party, signed a $14.4 million promissory note payable to the Foundation. The note bears a fixed rate of 1% with interest-only payments due quarterly through September 2020. Thereafter, NIIF will make quarterly payments of accrued interest and principal sufficient to fully amortize the remaining principal balance of the note. The note matures in December 2043. At June 30, 2018 and 2017, the principal balance of the

3. Loans Receivable, Net (continued)

note was $14.4 million and is recorded in loans receivable, net on the consolidated statements of financial position. For each of the years ended June 30, 2018 and 2017, the Foundation received interest income approximating $144 thousand, which is included in net investment return in the consolidated statements of activities and changes in net assets.

4. Contributions Receivable, Net

Contributions receivable are discounted using rates on risk-free obligations ranging from 0.3% to 5.9% for both 2018 and 2017. Contributions receivable, certain of which are permanently restricted by donors and others that are temporarily restricted by donors, as of June 30 are as follows:

	2018	2017
	(In Thousands)	
Less than one year	**$ 16,647**	$ 21,847
One to four years	**8,444**	13,524
Greater than four years	**2,714**	1,538
	27,805	36,909
Allowance for doubtful accounts	**(5,661)**	(10,277)
Unamortized discount	**(824)**	(697)
Contributions receivable, net	**$ 21,320**	$ 25,935

Conditional promises of gifts depend on the occurrence of a specific and uncertain event. The Foundation has not recorded these types of gifts in the consolidated financial statements. As of June 30, the fair market value of these conditional gifts is as follows:

	2018	2017
	(In Thousands)	
Bequests	**$ 294,822**	$ 281,868
Other	**1,213**	3,682
Total	**$ 296,035**	$ 285,550

5. Endowments

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 was as follows:

	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**
	$ 49,291	**$ 281,828**	**$ 461,069**	**$ 792,188**

5. Endowments (continued)

	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
	$ 43,450	$ 281,436	$ 455,738	$ 780,624

Changes in endowment net assets for the years ended June 30 were as follows:

	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 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**
Contribution	**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**

5. Endowments (continued)

	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 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
Contribution	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 consisted of the following:

	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

5. Endowments (continued)

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 achieve 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 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.

5. Endowments (continued)

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 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 that 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.

6. Investments and Investment Income

Investments as of June 30 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
U.S. 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 are as follows:

	2018	2017
	(In Thousands)	
Cash equivalents	**$ 3,572**	$ 6,100
U.S. agency obligations	**1,670**	–
	$ 5,242	$ 6,100

6. Investments and Investment Income (continued)

Total net investment return for the years ended June 30 is reflected in the consolidated statements of activities and changes in net assets as follows:

	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 change in unrealized gain on investments	**412**	8,614
	$ 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 changes 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 are pooled using a market value basis, with each individual fund subscribing to, or disposing of, units on the basis of the market value per unit at the end of the prior calendar month during which the transaction takes place.

6. Investments and Investment Income (continued)

Alternative Investments

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30 consisted of the following:

	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

7. Fair Value Measurements

The following tables present the fair value measurements of assets by class recorded at fair value on a recurring basis under ASC 820 at 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**
Investment at NAV:				
Hedge funds				**152,019**
Investments in partnerships				**363,837**
				$ 755,595

7. Fair Value Measurements (continued)

	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
Investment at NAV:				
Hedge funds				170,241
Investments in partnerships				368,815
				$ 752,947

7. Fair Value Measurements (continued)

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.

Cash Equivalents

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

Investments

Level 1 securities include cash, equity and fixed income mutual funds, along with domestic equity securities and U.S. Treasury 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.

Funds Held in Trust by Others

Fair value is determined at the market values of the underlying marketable debt and equity securities in the beneficial trusts at June 30, 2018 and 2017. The Foundation's fair value is determined based on its proportional beneficial interest of 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 interests are classified within Level 2 of the hierarchy.

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.

8. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities that are held and controlled by others. One of these is a perpetual and irrevocable trust known as the University of Louisville Trust (the Trust). It was created in 1983 to receive, administer and invest assets that result from gifts to the Trust. The market value of the Trust was approximately $25.9 million 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 the years ended June 30, 2018 and 2017, the Foundation recorded income of $3.5 million and $5.6 million, respectively, from these trusts, which is included in changes in funds held in trust by others on the consolidated statements of activities and changes in net assets.

9. Capital Assets

Capital assets as of June 30 are as follows:

	2018	2017
	(In Thousands)	
Residence halls:		
Buildings	**$ 53,015**	$ 52,901
Land improvements	**517**	505
Furniture and fixtures	**4,600**	4,667
	58,132	58,073
Accumulated depreciation	**(24,849)**	(23,323)
Construction-in-process	**–**	9
Residence hall capital assets, net	**33,283**	34,759
Other:		
Land	**5,483**	5,650
Buildings	**37,868**	38,022
Other plant assets	**41,547**	43,159
	84,898	86,831
Accumulated depreciation	**(30,150)**	(28,939)
Construction-in-process	**1,332**	1,336
Other capital assets, net	**56,080**	59,228
Total capital asset, net	**$ 89,363**	$ 93,987

9. Capital Assets (continued)

Pursuant to lease agreements, ULH agreed to pay the University annual ground lease rent equal to available excess cash flow, as defined in the agreements. For the years ended June 30, 2018 and 2017, ULH recognized ground lease rental expense of approximately $128,000 and $698,000, respectively.

10. 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 to invest 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 $200 thousand 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.

11. Bonds and Notes Payable

Bonds and notes payable consist of the following at June 30:

	Description	Fiscal Year of Maturity	2018	2017
			(In Thousands)	
Series 2009 A (non taxable) – ULH	Principal payments of $515 to $900 are due annually through maturity, and interest is due semi-annually at fixed rates from 4% to 4.5%	2033	**$ 10,360**	$ 10,855
Series 2010 A (non taxable) – ULH	Principal payments of $940 to $2,815 are due annually through maturity, and interest is due semi-annually at fixed rates from 4% to 4.4%	2030	**15,415**	16,320
Series 2013 (taxable) – ULF	Principal payments of $500 to $2,450 are due annually through maturity and interest is due semi-annually at fixed rates from 2.4% to 5.6%	2043	**34,955**	35,715
CDE Note “A” – TNRP	Fixed rate of 0.73%, with quarterly interest-only payments of $6 through December 2020, then quarterly principal and interest payments of $42 through maturity	2044	**3,518**	3,518
PNC CDE Note “B” – TNRP	Fixed rate of 0.73%, with quarterly interest-only payments of $3 through December 2020, then quarterly principal and interest payments of $18 through maturity	2044	**1,482**	1,482
NNMF Note “A” – TNRP	Fixed rate of 0.73%, with quarterly interest-only payments of $20 through December 2020, then quarterly principal and interest payments of $129 through maturity	2044	**10,886**	10,886

11. Bonds and Notes Payable (continued)

	Description	Fiscal Year of Maturity	2018	2017
			(In Thousands)	
NNMF Note "B" – TNRP	Fixed rate of 0.73%, with quarterly interest-only payments of $7 through December 2020, then quarterly principal and interest payments of $45 through maturity	2044	**$ 3,964**	$ 3,964
Term Note Payable – ULF	Fixed rate of 3.23%, with monthly principal and interest payments through January 1, 2023	2023	**1,794**	–
Total bonds and notes payable			**82,374**	82,740
Plus unamortized premium			**73**	106
Less bond issuance costs			**(1,146)**	(1,383)
Bonds and notes payable, net			**$ 81,301**	$ 81,463

Bonds Payable – ULH

ULH's outstanding bonds are secured by deposits with the bond trustee, which are reported in restricted investments in the consolidated statements of financial position as of June 30, 2018 and 2017, and mortgages on the respective properties.

In connection with the outstanding bonds, ULH is required to comply with certain restrictive covenants. At June 30, 2018 and 2017, ULH is in compliance with such covenants.

Bonds Payable – ULF

In August 2013, the Foundation issued $37.5 million of University of Louisville Foundation, Inc. Taxable Fixed Rate Bonds Series 2013 (2013 bonds) at a total interest cost of 4%. Final maturity on the 2013 bonds is March 1, 2043.

11. Bonds and Notes Payable (continued)

Notes Payable – TNRP

TNRP, a qualified active low-income community business (QALICB), executed a loan agreement on September 12, 2013, that provides for borrowings totaling $5.0 million from PNC CDE 28, LP (PNC) and $14.9 million from NNMF Sub-CDE XX, LLC (NNMF). The loans financed the construction of the Atria Support Center Building. The loans are secured by a property deed of trust and security agreement filing on the property and a guaranty by the Foundation for obligations under the loan agreement. TNRP's loan balance is $19.9 million at June 30, 2018 and 2017.

Under the terms of the loan agreements, the loans have an interest rate of 0.73%, payable quarterly to PNC and NNMF. TNRP is not permitted to prepay any portion of the principal of the loans until the seventh anniversary date. Commencing September 2020, TNRP will pay quarterly, in arrears, equal installments of principal and interest in amounts sufficient to fully amortize the principal balances of each of the loans through the maturity date, December 31, 2043. Total interest expense on the notes for each of the years ended June 30, 2018 and 2017, was approximately $200,000.

Under the terms of the loan agreement, TNRP has certain compliance requirements, including compliance reporting and maintaining its status as a QALICB as defined by the Internal Revenue Code. At June 30, 2018 and 2017, TNRP was in compliance with these requirements.

Term Note Payable – ULF

In January 2018, the Foundation issued a $1.9 million note payable which repaid the financial guarantee of Pharmacogenetics Diagnostic Laboratory, LLC's line of credit. Amounts outstanding under the note bear a 3.23% fixed interest rate. The note matures in January 2023.

Principal payments on the above obligations due in the next five years and thereafter are as follows (in thousands):

2019	$	2,596
2020		2,709
2021		3,536
2022		3,673
2023		3,613
Thereafter		66,247
	$	82,374

12. Guarantees

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 as of June 30, 2018 and 2017, respectively.

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

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

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.

13. Related-party Transactions

Included in the spending policy contribution to the University is a specific component designed to approximate the Foundation's allocated portion of salaries, benefits and certain other administrative support costs related to fundraising and advancement. These amounts were approximately $7.2 million and $14.1 million for the years ended June 30, 2018 and 2017, respectively, and are included in contributions and allocations to the University departments on the consolidated statements of activities and changes in net assets.

13. Related-party Transactions (continued)

For the years ended June 30, 2018 and 2017, the Foundation recorded approximately $2.7 million and $2.9 million, respectively, in revenues from the University and related affiliates, which is included in net rental revenues and other revenues in the consolidated statements of activities and changes in net assets.

14. Transactions with University of Louisville Real Estate Foundation, Inc. and Affiliates

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 University of Louisville Real Estate Foundation, Inc. and Affiliates (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 for the years ended June 30, 2018 and 2017. This discount and the estimated 15-year payback period were 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, respectively, and is included as due from the University of Louisville Real Estate Foundation in the consolidated statements of financial position. The amount due from ULREF is included within the endowment assets as of June 30, 2018 and 2017. See Note 5 for further information regarding the endowment.

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.

15. Leasing Activities

TNRP leases space to tenants under noncancelable operating leases. As of June 30, 2018 and 2017, TNRP had leases with five and six tenants, respectively. These leases expire in 1 to 16 years, through 2032. These leases generally require TNRP to pay all executory costs (property, taxes, maintenance, and insurance).

Future leasing rent payments due to TNRP during the next five years ending June 30 and thereafter were as follows (in thousands):

2019	$ 3,426
2020	3,449
2021	3,505
2022	3,562
2023	3,620
Thereafter	18,129
Total	$ 35,691

Major Tenants

As of June 30, 2018 and 2017, TNRP has leased approximately 95% of its leasable space to three tenants.

16. Functional Expenses

Expenses by functional classification for the years ended June 30 were as follows:

	2018	**2017**
	(In Thousands)	
Program services	**$ 63,721**	$ 45,148
Residence halls and real estate operations	**10,710**	11,792
Management and general	**8,951**	20,846
Golf course operations	**2,869**	3,296
Fundraising	**7,233**	14,125
	$ 93,484	$ 95,207

17. Net Assets

The following tables describe the functional classifications of temporarily and permanently restricted net assets as to purpose based upon the intent of donors as of June 30:

	2018	
	Temporarily Restricted	**Permanently Restricted**
	(In Thousands)	
Instruction	**$ 19,232**	**$ 67,581**
Research	**103,356**	**232,125**
Public service	**4,665**	**6,723**
Academic support	**35,771**	**43,151**
Student services	**259**	**309**
Institutional support	**100,264**	**22,551**
Scholarships/fellowships	**57,511**	**88,232**
Auxiliary operations and other	**4,907**	**397**
Total	**$ 325,965**	**$ 461,069**

	2017	
	Temporarily Restricted	**Permanently Restricted**
	(In Thousands)	
Instruction	$ 18,202	$ 63,768
Research	97,822	231,089
Public service	4,415	6,604
Academic support	33,856	42,729
Student services	245	296
Institutional support	94,896	22,819
Scholarships/fellowships	54,432	88,037
Auxiliary operations and other	4,645	396
Total	$ 308,513	$ 455,738

17. Net Assets (continued)

Donor-imposed restrictions expired on temporarily restricted net assets during the years ended June 30 as follows:

	2018	2017
	(In Thousands)	
Temporarily restricted contributions for:		
Instruction	**$ 2,454**	$ 2,061
Research	**13,926**	15,686
Public service	**788**	406
Academic support	**4,658**	3,101
Student services	**17**	50
Institutional support	**363**	1,519
Operation and maintenance of plant	**25**	70
Scholarship/fellowships	**4,325**	4,275
Total net assets released from restrictions	**$ 26,556**	$ 27,168

18. Commitments and Contingencies

The Foundation is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. Management assesses the probable outcome of unresolved litigation and records estimated settlements, if applicable. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material effect on the consolidated financial position, results of activities and changes in net assets and cash flows of the Foundation.

19. Subsequent Events

The Foundation has evaluated and disclosed subsequent events through September 26, 2018, which is the date the consolidated financial statements were made publicly available. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the consolidated financial statements.

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