

FINANCIAL STATEMENTS

ULH, Inc.

An Affiliate of the University of Louisville Foundation, Inc.

Years Ended June 30, 2018 and 2017

With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

ULH, Inc.

Financial Statements

Years Ended June 30, 2018 and 2017

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## Report of Independent Auditors

The Board of Directors  
ULH, Inc.

We have audited the accompanying financial statements of ULH, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the 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 from 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 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 financial position of ULH, Inc. at June 30, 2018 and 2017, and the results of its statements of activities and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

September 26, 2018

ULH, Inc.

Statements of Financial Position  
(In Thousands)

	June 30	
	2018	2017
<b>Assets</b>		
Cash	\$ 3,945	\$ 2,021
Accounts receivable	466	214
Prepaid expenses and other	6	51
Restricted investments	5,242	6,100
Capital assets, net	33,283	34,759
Total assets	<u>\$ 42,942</u>	<u>\$ 43,145</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable	\$ 492	\$ 1,618
Other liabilities	384	321
Due to the University of Louisville	2,680	-
Due to the University of Louisville Foundation, Inc.	12,762	14,170
Bonds payable, net	25,547	26,848
Total liabilities	<u>41,865</u>	<u>42,957</u>
Net assets:		
Unrestricted net assets	<u>1,077</u>	188
Total unrestricted net assets	<u>1,077</u>	188
Total liabilities and net assets	<u>\$ 42,942</u>	<u>\$ 43,145</u>

*See notes to financial statements.*

ULH, Inc.

Statements of Activities and Changes in Net Assets  
(In Thousands)

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Revenues and gains</b>		
Rental revenue	\$ 7,891	\$ 8,273
Gains and other revenue	823	912
Total revenues and gains	<u>8,714</u>	<u>9,185</u>
<b>Operating expenses</b>		
Residence hall operations (including depreciation and amortization)	6,021	5,343
Ground lease expense	128	698
Management fees	–	280
Total operating expenses	<u>6,149</u>	<u>6,321</u>
	<b>2,565</b>	<b>2,864</b>
<b>Other expenses</b>		
Interest expense – University of Louisville Foundation, Inc.	(497)	(555)
Interest expense	(1,179)	(1,155)
Total other expenses	<u>(1,676)</u>	<u>(1,710)</u>
Changes in net assets	889	1,154
Net assets (deficiency in net assets), beginning of year	188	(966)
Unrestricted net assets, end of year	<u>\$ 1,077</u>	<u>\$ 188</u>

*See notes to financial statements.*

ULH, Inc.

Statements of Cash Flows  
(In Thousands)

	<b>Year Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Changes in net assets	\$ 889	\$ 1,154
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,575	1,682
Change in assets and liabilities:		
Accounts receivable	(252)	38
Prepaid expenses and other	45	90
Accounts payable	(1,126)	517
Other liabilities	63	(155)
Due to the University of Louisville	2,680	–
Due to the University of Louisville Foundation, Inc.	(1,408)	18
Net cash provided by operating activities	<u>2,466</u>	<u>3,344</u>
<b>Investing activities</b>		
Purchase of investments	(44,773)	(53,637)
Proceeds from sales of investments	45,631	52,157
Purchase of capital assets	–	(289)
Net cash provided by (used in) investing activities	<u>858</u>	<u>(1,769)</u>
<b>Financing activities</b>		
Principal payments of bonds payable	(1,400)	(1,350)
Net cash used in financing activities	<u>(1,400)</u>	<u>(1,350)</u>
Net increase in cash	1,924	225
Cash, beginning of year	2,021	1,796
Cash, end of year	<u>\$ 3,945</u>	<u>\$ 2,021</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 1,566</u>	<u>\$ 1,120</u>

*See notes to financial statements.*

# ULH, Inc.

## Notes to Financial Statements

June 30, 2018 and 2017

### **1. Description of Organization and Summary of Significant Accounting Policies**

#### **Organization**

ULH, Inc. (ULH) (a Kentucky not-for-profit corporation) is a consolidated affiliate of the University of Louisville Foundation, Inc. (the Foundation). ULH and the Foundation share a common Board of Directors and certain common management.

ULH's purpose is to lease and/or acquire and operate university housing projects and issue revenue bonds for university housing. ULH operates four halls, including Billy Minardi Hall, Bettie Johnson Hall, Kurz Hall and Community Park Hall.

The university housing projects are constructed on land leased from the University of Louisville (the University). ULH has entered into agreements with the University, agreeing to pay annual ground rent equal to the available excess cash flows from the university housing projects, as defined in the respective ground lease agreements.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. 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 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**

The cash carried on the statements of financial position approximates fair value.

At June 30, 2018 and 2017, ULH's cash accounts exceeded federally insured limits by approximately \$3,695,000 and \$1,815,000, respectively.

#### **Accounts Receivable**

Accounts receivable consist of rental charges to tenants and other organizations that have functions hosted at a ULH property. ULH provides an allowance for doubtful accounts based on a review of outstanding receivables, historical collection information and existing economic conditions. ULH

# ULH, Inc.

## Notes to Financial Statements (continued)

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

considers the individual credit evaluations and specific circumstances of tenants when writing off delinquent receivables. As of June 30, 2018 and 2017, there are no amounts estimated as uncollectible. For the years ended June 30, 2018 and 2017, ULH recorded bad debt expense of approximately \$140,000 and \$80,000 and are included in residence hall operations in the statements of activities and changes in net assets.

#### **Restricted Investments and Investment Return**

Restricted investments consist of money market mutual funds and U.S. agency obligations. These investments are restricted by bond indenture for payment of debt service and repairs and replacement.

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 financial statements.

All investment securities are considered trading. Included in net investment return, which is recorded within gains and other revenue in the statements of activities and changes in net assets, are interest and unrealized and realized gains and losses.

#### **Fair Value Measurements**

ULH follows the provisions of Accounting Standards Codification (ASC) 820, *Fair Value Measurements* (ASC 820), 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.

## ULH, Inc.

### Notes to Financial Statements (continued)

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

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 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.
- 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. ULH'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.

#### **Capital Assets**

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

ULH, Inc.

Notes to Financial Statements (continued)

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

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

Buildings	40 years
Land improvements	15 years
Furniture and fixtures	3 to 15 years

ULH capitalizes interest costs as a component of construction-in-progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. During the years ended June 30, 2018 and 2017, ULH did not capitalize any interest.

**Long-Lived Asset Impairment**

ULH 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 flows 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.

No asset impairment was recognized during the years ended June 30, 2018 or 2017.

**Rental Revenue**

Charges to residents are recognized as revenue ratably over the period to which the services relate.

**Net Assets**

ULH had no net assets subject to donor restrictions at June 30, 2018 or 2017.

# ULH, Inc.

## Notes to Financial Statements (continued)

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

#### Tax Status

ULH is recognized by the Internal Revenue Service as exempt from federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as a charitable organization qualifying under the Code Section 501(c)(3). ULH completed an analysis of its tax positions in accordance with applicable accounting guidance and determined there are no amounts to be recognized in the financial statements at June 30, 2018 or 2017.

#### Functional Allocation of Expenses

The costs of supporting the residence hall operations are summarized on a functional basis in the statements of activities and changes in net assets.

#### Management Fees

For the year ended June 30, 2018, ULH's student halls operated under management agreements with the University's department of campus housing, and for the year ended June 30, 2017, ULH's student halls operated under management agreements with a third-party property management company. The management fee is calculated as 4% of each hall's gross revenues, with a maximum of \$92,000 and a minimum of \$46,000, except for Billy Minardi Hall, which has no minimum or maximum requirements.

For the years ended June 30, 2018 and 2017, ULH recorded management fee expense of approximately \$0 and \$280,000, respectively. For the fiscal year ended June 30, 2018, the University's department of campus housing has waived its management fee.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for 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

# ULH, Inc.

## Notes to Financial Statements (continued)

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

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.

ULH adopted ASU 2014-09 on July 1, 2018, using the cumulative catch-up transition method. ULH'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. ULH has performed a preliminary analysis of revenue streams and transactions under ASU 2014-09 and, as currently determined, the impact to the financial statements upon adoption is not material as ULH's revenue streams and transactions (such as revenue from lease contracts) are not covered under ASU 2014-09.

### 2. Restricted Investments and Investment Return

Restricted investments at June 30 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Money market mutual funds	\$ 3,572	\$ 6,100
U.S. agency obligations	1,670	—
	<u>\$ 5,242</u>	<u>\$ 6,100</u>

Total investment return is included in gains and other revenue in the statements of activities and changes in net assets and, for the years ended June 30, 2018 and 2017, was \$130,000 and \$111,000, respectively.

ULH, Inc.

Notes to Financial Statements (continued)

**3. 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 and 2017 (in thousands):

	<b>2018</b>	
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>
Investments:		
Money market mutual funds	\$ 3,572	\$ 3,572
U.S. Treasury	1,670	1,670
Total	<u>\$ 5,242</u>	<u>\$ 5,242</u>
	<b>2017</b>	
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>
Investments:		
Money market mutual funds	\$ 6,100	\$ 6,100

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds and U.S. Treasury bonds. 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. ULH does not have any Level 2 or Level 3 assets.

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

ULH, Inc.

Notes to Financial Statements (continued)

**4. Capital Assets**

Capital assets as of June 30 are as follows (in thousands):

	<u>2018</u>	<u>2017</u>
Residence halls:		
Buildings	\$ 53,015	\$ 52,901
Land improvements	517	505
Furniture and fixtures	4,600	4,667
Construction-in-process	–	9
Accumulated depreciation	(24,849)	(23,323)
Total capital assets, net	<u>\$ 33,283</u>	<u>\$ 34,759</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was approximately \$1,526,000 and \$1,657,000, respectively, and is included in residence hall operations in the statements of activities and changes in net assets.

Pursuant to the lease agreements, ULH agreed to pay the University annual ground 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 expense of approximately \$128,000 and \$698,000, respectively. At June 30, 2018 and 2017, the amount outstanding to the University related to the ground leases was approximately \$128,000 and \$1,116,000, respectively, and is included in accounts payable in the statements of financial position.

ULH, Inc.

Notes to Financial Statements (continued)

**5. Bonds Payable**

Bonds payable consist of the following at June 30 (in thousands):

	<b>Description</b>	<b>Year of Maturity</b>	<b>2018</b>	<b>2017</b>
Series 2009A (nontaxable)	Principal payments of \$515 to \$900 are due annually through maturity, and interest is due semiannually at fixed rates from 4% to 4.5%.	2033	<b>\$ 10,360</b>	\$ 10,855
Series 2010A (nontaxable)	Principal payments of \$940 to \$2,815 are due annually through maturity, and interest is due semiannually at fixed rates from 4% to 4.4%.	2030	<b>15,415</b>	16,320
Total bonds payable			<b>25,775</b>	27,175
Plus unamortized premium			<b>73</b>	106
Less bond issuance costs			<b>(301)</b>	(433)
Bonds payable, net			<b>\$ 25,547</b>	\$ 26,848

The outstanding debt of ULH is secured by mortgages on the respective properties and is guaranteed by the Foundation. Amounts payable under the guaranty are limited as follows (in thousands):

	<b>2018</b>	
	<b>Aggregate Limit</b>	<b>Annual Limit</b>
<b>Residence Hall</b>		
Bettie Johnson Hall	\$ 15,415	\$ 2,877
Kurz Hall	\$ 10,360	\$ 938

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

## ULH, Inc.

### Notes to Financial Statements (continued)

#### 5. Bonds Payable (continued)

At June 30, 2018, principal payments on the above obligations will be due in the next five years and thereafter as follows (in thousands):

2019	\$	1,455
2020		1,510
2021		1,570
2022		1,630
2023		1,695
Thereafter		17,915
	\$	<u>25,775</u>

On July 14, 2015, ULH paid in full the Series 2005A and Series 2005B bonds and accumulated interest, which relate to Community Park Hall, with proceeds from the liquidation of the 2005 bond restricted investment accounts of \$717,218 and a loan of approximately \$13,349,000 from the Foundation. In connection with this transaction, ULH accrued interest on the outstanding balance at an implied rate of 4.15%. The outstanding balance at June 30, 2018 and 2017, is approximately \$12,762,000 and \$13,545,000, respectively, and includes \$262,000 and \$414,000 of accrued interest due to the Foundation, respectively. For the years ended June 30, 2018 and 2017, ULH made principal payments totaling \$631,000 and \$176,000, respectively. The amount due to the Foundation, including accrued interest, is expected to be paid upon obtaining new permanent financing for Community Park Hall.

#### 6. Risks and Uncertainties

ULH invests in various securities which, 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 those changes could materially affect the amounts reported in the financial statements.

## ULH, Inc.

### Notes to Financial Statements (continued)

#### **7. Related-Party Transactions**

As more fully described in Note 5 above, on July 14, 2015, ULH borrowed approximately \$13,349,000 from the Foundation to repay Community Park Hall outstanding bonds. As of June 30, 2018 and 2017, ULH has unpaid advances from the Foundation of approximately \$0 and \$625,000, respectively, related to expenses funded by the Foundation on behalf of ULH.

As of June 30, 2018 and 2017, ULH owes the University \$2.7 million and \$0 million, respectively. The amount due to the University represents reimbursement for vendor payments on behalf of ULH.

As more fully described in Note 4, ULH is a party to a ground lease with the University.

#### **8. Subsequent Events**

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

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