Consolidated Financial Statements

University of Louisville Foundation, Inc. and Affiliates
Years Ended June 30, 2019 and 2018
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, 2019, and 2018

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, 2019 and 2018, 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 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, 2019 and 2018, and the consolidated results of their activities and changes in net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*

As discussed in Note 1 to the consolidated financial statements, the University of Louisville Foundation, Inc. and Affiliates changed its method of financial statement presentation as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, effective June 30, 2019. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

September 26, 2019

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position

(In Thousands)

	June 30	
	2019	**2018**
Assets		
Cash	**$ 9,785**	$ 6,261
Accounts and notes receivable, net	**4,870**	5,626
Loans receivable, net	**15,720**	15,720
Contributions receivable, net	**15,818**	21,320
Due from the University of Louisville Real Estate Foundation, Inc.	**17,410**	21,755
Investments	**695,617**	685,322
Funds held in trust by others	**58,675**	58,770
Restricted investments	**–**	5,242
Prepaid expenses and other assets	**6,298**	6,879
Capital assets, net	**54,114**	89,363
Total assets	**$ 878,307**	$ 916,258
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 1,049**	$ 1,730
Unallocated gifts	**99**	1,608
Funds held in trust for others	**19,555**	21,973
Other liabilities	**10,667**	12,307
Bonds and notes payable	**54,635**	81,301
Due to the University of Louisville	**1,383**	6,542
Total liabilities	**87,388**	125,461
Net assets:		
Without donor restrictions	**38,864**	30,583
With donor restrictions	**752,055**	760,214
Total net assets	**790,919**	790,797
Total liabilities and net assets	**$ 878,307**	$ 916,258

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, 2019 and 2018

	Without Donor Restrictions		With Donor Restrictions		Totals	
	2019	2018	2019	2018	2019	2018
Revenues, gains, and other support:						
Gifts	$ 25,014	$ 22,651	$ 13,912	$ 11,569	$ 38,926	$ 34,220
Net investment return	7,791	19,056	13,034	37,162	20,825	56,218
Changes in funds held in trust by others	–	–	1,907	3,479	1,907	3,479
Net rental revenues	6,829	13,146	–	–	6,829	13,146
Contributions from the University of Louisville					–	–
Real Estate Foundation, Inc.	11,874	12	–	–	11,874	12
Other revenues	3,516	3,349	–	–	3,516	3,349
Net assets released from restrictions	33,825	26,556	(33,825)	(26,556)	–	–
Total revenues, gains, and other support	88,849	84,770	(4,972)	25,654	83,877	110,424
Expenses:						
Contributions and allocations to University of Louisville departments	64,058	67,807	–	–	64,058	67,807
Salaries	2,892	3,770	–	–	2,892	3,770
Utilities	975	2,031	–	–	975	2,031
General and administrative	2,592	2,306	–	–	2,592	2,306
Professional services	2,003	2,295	–	–	2,003	2,295
Repairs and maintenance	1,946	2,505	–	–	1,946	2,505
Depreciation and amortization	3,088	4,744	–	–	3,088	4,744
Interest expense	2,267	3,383	–	–	2,267	3,383
Other expenses	747	1,049	–	–	747	1,049
Total expenses	80,568	89,890	–	–	80,568	89,890
Loss on contributions receivable, net	–	–	3,227	2,422	3,227	2,422
Actuarial loss (gain) on annuity and unitrust obligations	–	–	(40)	449	(40)	449
Total expenses and losses	80,568	89,890	3,187	2,871	83,755	92,761
Reclassifications to implement ASU 2016-14	–	26,820	–	(26,820)	–	–
Changes in net assets	8,281	21,700	(8,159)	(4,037)	122	17,663
Net assets, beginning of year	30,583	8,883	760,214	764,251	790,797	773,134
Net assets, end of year	$ 38,864	$ 30,583	$ 752,055	$ 760,214	$ 790,919	$ 790,797

See notes to consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2019	**2018**
Operating activities		
Changes in net assets	**$ 122**	$ 17,663
Adjustments to reconcile changes in net assets to		
net cash provided by (used in) operating activities:		
Net change in unrealized gain on investments and alternative investments net return	**(19,757)**	(45,630)
Changes in funds held in trust by others	**(1,907)**	(3,479)
Depreciation and amortization expense	**3,088**	4,744
Loss on disposals of capital assets	**19**	243
Loss on contributions receivable	**3,227**	2,422
Loss on contribution of capital assets to University of Louisville Real Estate Foundation, Inc.	**32,991**	–
Contributions restricted for long-term investment	**(9,082)**	(3,790)
Changes in annuitant and unitrust funds and obligations	**659**	1,472
Changes in assets and liabilities:		
Accounts and notes receivable, net	**756**	(733)
Contributions receivable, net	**2,275**	2,193
Due from the University of Louisville Real Estate Foundation, Inc.	**4,345**	2,325
Prepaid expenses and other assets	**14**	448
Accounts payable	**(681)**	(1,522)
Unallocated gifts	**(1,509)**	273
Funds held in trust for others	**(2,418)**	(11,784)
Other liabilities	**(2,194)**	(2,241)
Due to the University of Louisville	**(5,159)**	(11,714)
Net cash provided by (used in) operating activities	**4,789**	(49,110)
Investing activities		
Purchases of investments	**(240,727)**	(301,103)
Proceeds from sales of investments	**258,158**	345,194
Net cash provided by investing activities	**17,431**	44,091
Financing activities		
Contributions restricted for long-term investment	**9,082**	3,790
Payments to annuitants	**(830)**	(788)
Proceeds from issuance of notes payable	**–**	1,994
Principal payments on bonds and notes payable	**(26,948)**	(2,348)
Net cash (used in) provided by financing activities	**(18,696)**	2,648
Net increase (decrease) in cash and cash equivalents	**3,524**	(2,371)
Cash and cash equivalents, beginning of year	**6,261**	8,632
Cash and cash equivalents, end of year	**$ 9,785**	$ 6,261
Supplemental cash flow information		
Cash paid for interest	**$ 2,548**	$ 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, 2019 and 2018, 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. ULH filed articles of dissolution in January 2019. See Notes 11, 13, and 16 for further descriptions of ULH transactions.

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. 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. This investment is accounted for under the equity method, since ULDC is not considered the primary beneficiary.

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.

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 startup corporations. MetaCyte Equity has had no activity since inception.

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

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. The entity filed articles of dissolution in June 2019.

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.

Use of Estimates

The preparation of consolidated 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 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.

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

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, 2019 and 2018, the Foundation's cash accounts exceeded federally insured limits by approximately $10.2 million and $6.2 million, respectively.

Investments and Investment Return

The Foundation includes, 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.

All investment securities are considered trading. Included in net investment return are interest, dividends, realized gains and losses on investments, investment manager fees, 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 with donor restrictions or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

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

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 investment 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.

The Foundation is a limited partner in certain funds that employ hedged investment strategies and funds that employ investment strategies that require long holding periods to create value. These investments are accounted for using the equity method of accounting, based on the fund's financial information. Management has utilized the best available information for reported alternative investment values, which, in some instances, are valuations as of an interim date.

Fair Value Measurements

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

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 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, since 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

ULF 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, since a majority of the daily operations and key operating decisions are conducted by NTS, and, therefore, the entity is not consolidated.

At June 30, 2019 and 2018, the Foundation's loss in excess of its investment was approximately $(586,000) and $(281,000), respectively, and is included within investments on the accompanying consolidated statements of financial position.

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 25 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.

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, 2019 and 2018.

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

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 net assets with donor restrictions.

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 on the consolidated statements of activities, since these earnings are distributed to the owners of the funds.

Unrestricted Bequests

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

Gifts

Gifts of cash and other assets received without donor stipulations are reported as net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on 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 without donor restriction 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 uncollectible 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.

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

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, art, vehicles, 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 on its consolidated financial statements and similarly increase gift revenue by a like amount. The Foundation received approximately $837,000 and $3.5 million of in-kind gifts for the years ended June 30, 2019 and 2018, respectively.

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 on the consolidated statements of financial position, was approximately $3.4 million for each of the years ended June 30, 2019 and 2018.

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 on the consolidated financial statements at June 30, 2019 and 2018.

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

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. Regulations necessary to implement certain aspects of the Act are expected to be promulgated by the IRS in tax year 2019. As of and for the year ended June 30, 2019, the Foundation has made reasonable estimates for the effects of the Act. 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.

Recent Accounting Pronouncements

Effective June 30, 2019, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* (ASU 2016-14). ASU 2016-14 changes certain financial statement requirements for not-for-profit entities in an effort to make the information more meaningful to users and reduce reporting complexity. The Foundation adopted ASU 2016-14 in its consolidated financial statements, applying it retrospectively to all periods presented. The impact of adoption changes the classification of net assets on the consolidated statements of financial position and the consolidated statements of activities and changes in net assets from three classes to two classes of net assets and the recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The Foundation also added additional disclosure for the liquidity and availability of financial assets at the consolidated statements of financial position date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification.

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

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018, is a follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
		(In Thousands)	
As previously reported:			
Unrestricted	$ 3,763	$ –	$ 3,763
Temporarily restricted	–	325,965	325,965
Permanently restricted	–	461,069	461,069
Net assets as previously reported	3,763	787,034	790,797
Reclassifications to implement ASU 2016-14:			
Underwater endowments	26,820	(26,820)	–
Net assets, as reclassified	$ 30,583	$ 760,214	$ 790,797

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for the Foundation beginning July 1, 2019, and will be applied using a modified retrospective approach. The Foundation is currently in the process of evaluating its lease contracts, as well as certain service contracts that may include embedded leases. Additionally, the Foundation is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases and incremental disclosures in the consolidated financial statement footnotes. The transition adjustment is not expected to have a material impact on the consolidated statements of financial position and activities and changes in net assets.

2. Financial Assets and Liquidity Resources

As of June 30, 2019 and 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on debt were as follows:

	2019	2018
	(In Thousands)	
Financial assets at year end:		
Cash	**$ 9,785**	$ 6,261
Accounts and notes receivable, net	**4,870**	5,626
Loans receivable, net	**15,720**	15,720
Contributions receivable, net	**15,818**	21,320
Due from the University of Louisville Real Estate Foundation, Inc.	**17,410**	21,755
Investments	**695,617**	685,322
Funds held in trust by others	**58,675**	58,770
Restricted investments	**–**	5,242
Total financial assets	**817,895**	820,016
Less amounts not available to be used within one year:		
Endowments with donor restrictions, net of current year spending appropriations	**(447,971)**	(445,718)
Quasi-endowments established by the board, net of current year spending appropriations	**(170,882)**	(182,303)
Loan receivable not due within one year	**(14,404)**	(14,404)
Funds held in trust by others	**(58,675)**	(58,770)
Restricted investments	**–**	(5,242)
Contributions receivable not due within one year	**(7,894)**	(11,157)
	(699,826)	(717,594)
Total financial assets available to meet general expenditures over the next twelve months	**$ 118,069**	$ 102,422

2. Financial Assets and Liquidity Resources (continued)

The Foundation has certain board-designated assets limited to use that are available for general expenditure within one year in the normal course of operations. These assets are part of the governing board-designated policy and included in the qualitative information above. It is the Foundation's practice to utilize the income from the endowments for operations; however, the entire amount could be made available, if necessary.

3. Net Assets

Without Donor Restrictions – These are net assets that are not subject to donor-imposed restrictions. Items that affect this category principally consist of revenues and expenses associated with the core activities of the Foundation and its affiliates, along with unrestricted gifts to the Foundation. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as without donor restriction revenue and net assets.

With Donor Restrictions – These are net assets subject to donor-imposed restrictions that will be met by the Foundation or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, pledges, and investment returns on true and term endowments. Expirations of restrictions on net assets are reported as net assets released from restrictions.

Net assets with donor restrictions consisted of the following at June 30:

	2019	**2018**
	(In Thousands)	
Instruction	**$ 81,042**	$ 81,430
Research	**270,367**	264,968
Academic support	**140,411**	143,188
Student services and financial aid	**153,967**	153,180
Institutional support	**59,694**	72,688
Other	**46,574**	44,760
	$ 752,055	$ 760,214

4. Due to the University

In accordance with the Foundation's memorandum of understanding with the University, the Foundation receives and disburses monies on behalf of the University. The net amount of these receipts and disbursements approximated a payable of $1.4 million and $3.9 million as of June 30, 2019 and 2018, respectively, which is recorded as an amount due to the University on 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 $7.3 million to the University subsequent to June 30, 2019.

5. 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, 2019 and 2018, the principal balance of the 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, 2019 and 2018, the Foundation received interest income approximating $144,000, which is included in net investment return on the consolidated statements of activities and changes in net assets.

6. Contributions Receivable, Net

Contributions receivable are discounted using rates on risk-free obligations ranging from 0.3% to 5.9% for both 2019 and 2018. Contributions receivable, certain of which are restricted by donors, as of June 30 are as follows:

	2019	2018
	(In Thousands)	
Less than one year	**$ 15,038**	$ 16,647
One to four years	**6,288**	8,444
Greater than four years	**1,606**	2,714
	22,932	27,805
Allowance for doubtful accounts	**(6,490)**	(5,661)
Unamortized discount	**(624)**	(824)
Contributions receivable, net	**$ 15,818**	$ 21,320

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

	2019	2018
	(In Thousands)	
Bequests	**$ 290,452**	$ 294,822
Other	**6,359**	1,213
Total	**$ 296,811**	$ 296,035

7. 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 U.S. 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.

7. Endowments (continued)

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

The composition of net assets by type of endowment fund at June 30 was as follows:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
	(In Thousands)		
Donor-restricted endowment funds	**$ –**	**$ 491,477**	**$ 491,477**
Board-designated endowment funds	**38,421**	**134,181**	**172,602**
	$ 38,421	**$ 625,658**	**$ 664,079**

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
	(In Thousands)		
Donor-restricted endowment funds	$ –	$ 469,917	$ 469,917
Board-designated endowment funds	41,553	141,684	183,237
	$ 41,553	$ 611,601	$ 653,154

7. Endowments (continued)

The 2018 amounts have been restated to exclude certain current use and other funds that are no longer considered part of the endowment due to the adoption of ASU 2016-14 and further analysis of these amounts or funds that are disclosed separately in the notes to the consolidated financial statements.

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
		(In Thousands)	
Endowment net assets, beginning of year	$ 41,553	$ 611,601	$ 653,154
Investment return:			
Investment and endowment income	383	5,887	6,270
Net appreciation	517	8,229	8,746
Total investment return	900	14,116	15,016
Contributions	3	10,791	10,794
Appropriations	(1,616)	(28,076)	(29,692)
Other changes	(2,419)	17,226	14,807
Endowment net assets, end of year	$ 38,421	$ 625,658	$ 664,079

7. Endowments (continued)

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
	(In Thousands)		
Endowment net assets, beginning of year	$ 41,215	$ 599,785	$ 641,000
Investment return:			
Investment and endowment income	309	4,742	5,051
Net appreciation	2,684	42,723	45,407
Total investment return	2,993	47,465	50,458
Contributions	351	4,107	4,458
Appropriations	(2,537)	(44,081)	(46,618)
Other changes	(468)	4,324	3,856
Endowment net assets, end of year	$ 41,553	$ 611,601	$ 653,154

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with or without donor restrictions and aggregated to approximately $24.2 million and $26.8 million at June 30, 2019 and 2018, respectively, in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of contributions with donor restrictions. The Foundation's spending policy allows for a pro-rated amount of appropriations in certain instances of endowments with these deficiencies.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds.

7. Endowments (continued)

Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that achieve a minimum net total return that is equal to the Foundation's spending rate plus inflation without the assumption of excessive investment risk. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income, such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within acceptable risk constraints.

The Foundation has a standing policy (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 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.

In April 2019, the Board of the Foundation approved a 4.25% spending policy for the fiscal year 2020 for support to the academic units and allocated 1.25% 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 total endowment assets was 1.7% and 7.1% in 2019 and 2018, respectively.

8. Investments and Investment Income

Investments as of June 30 are as follows:

	2019	2018
	(In Thousands)	
Cash equivalents	**$ 42,117**	$ 17,904
Alternative investments:		
Hedge funds	**143,581**	152,019
Investments in partnerships	**365,599**	363,837
Mutual funds:		
Equity	**34,468**	43,499
Fixed income	**44,659**	46,908
Marketable alternatives:		
Domestic marketable equity securities	**28,902**	24,235
Marketable debt securities:		
Agency bonds	**1,473**	17,406
U.S. Treasury	**34,818**	19,514
Total investments	**$ 695,617**	$ 685,322

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:

	2019	2018
	(In Thousands)	
Cash equivalents	**$ –**	$ 3,572
U.S. agency obligations	**–**	1,670
	$ –	$ 5,242

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

8. Investments and Investment Income (continued)

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.

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:

	2019			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
	(In Thousands)			
Hedge funds	**$ 143,581**	**$ 1,928**	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	**365,599**	**59,796**	Various from monthly to illiquid	Various from 30 to 180 days

8. Investments and Investment Income (continued)

	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 30 to 90 days
Investments in partnerships	363,837	67,459	Various from monthly to illiquid	Various from 30 to 180 days

9. 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:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Cash	**$ 9,785**	**$ –**	**$ –**	**$ 9,785**
Cash equivalents	**42,117**	**–**	**–**	**42,117**
Mutual funds:				
Equity	**34,468**	**–**	**–**	**34,468**
Fixed income	**44,659**	**–**	**–**	**44,659**
Domestic marketable equity securities	**28,902**	**–**	**–**	**28,902**
Marketable debt securities:				
Agency bonds	**–**	**1,473**	**–**	**1,473**
U.S. Treasury	**34,818**	**–**	**–**	**34,818**
Total investments	**184,964**	**1,473**	**–**	**186,437**
Funds held in trust by others	**–**	**58,675**	**–**	**58,675**
Total cash, investments, funds held in trusts by others, and restricted investments	**$ 194,749**	**$ 60,148**	**$ –**	**254,897**
Investments at NAV:				
Hedge funds				**143,581**
Investments in partnerships				**365,599**
				$ 764,077

9. Fair Value Measurements (continued)

	2018			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Cash	$ 6,261	$ –	$ –	$ 6,261
Cash equivalents	17,904	–	–	17,904
Mutual funds:				
Equity	43,499	–	–	43,499
Fixed income	46,908	–	–	46,908
Domestic marketable equity securities	24,235	–	–	24,235
Marketable debt securities:				
Agency bonds	–	17,406	–	17,406
U.S. Treasury	19,514	–	–	19,514
Total investments	152,060	17,406	–	169,466
Funds held in trust by others	–	58,770	–	58,770
Restricted investments:				
Cash equivalents	3,572	–	–	3,572
U.S. Treasury	1,670	–	–	1,670
Total cash, investments, funds held in trusts by others, and restricted investments	$ 163,563	$ 76,176	$ –	239,739
Investments at NAV:				
Hedge funds				152,019
Investments in partnerships				363,837
				$ 755,595

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on 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, 2019.

9. Fair Value Measurements (continued)

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, 2019 and 2018. The Foundation's fair value is determined based on its proportional beneficial interest 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.

10. 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 $26.2 million and $25.9 million as of June 30, 2019 and 2018, respectively. The Foundation's portion of the market value of the remaining trusts was approximately $32.5 million and $32.8 million as of June 30, 2019 and 2018, respectively. These

10. Funds Held in Trust by Others (continued)

funds are invested in various equities and income-producing assets. For the years ended June 30, 2019 and 2018, the Foundation recorded income of $1.9 million and $3.5 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.

11. Capital Assets

Capital assets as of June 30 are as follows (see Note 16 for discussion on contribution of residence halls):

	2019	2018
	(In Thousands)	
Residence halls:		
Buildings	**$ –**	$ 53,015
Land improvements	–	517
Furniture and fixtures	–	4,600
	–	58,132
Accumulated depreciation	–	(24,849)
Construction in process	–	–
Residence halls capital assets, net	–	33,283
Other:		
Land	**5,483**	5,483
Buildings	**37,868**	37,868
Other plant assets	**21,671**	41,547
	65,022	84,898
Accumulated depreciation	**(12,224)**	(30,150)
Construction in process	**1,316**	1,332
Other capital assets, net	**54,114**	56,080
Total capital asset, net	**$ 54,114**	$ 89,363

12. Funds Held in Trust for Others

The Foundation is the custodian of funds owned by the Association. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. As of June 30, 2019 and 2018, the Foundation held approximately $11.2 million and $13.6 million, respectively, for the Association's investment purposes.

12. Funds Held in Trust for Others (continued)

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, 2019 and 2018, 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, 2019 and 2018, the Foundation held approximately $200,000 for the benefit of the Louisville Orchestra.

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

13. Bonds and Notes Payable

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

	Description	**Fiscal Year of Maturity**	**2019**	**2018**
			(In Thousands)	
Series 2009A (nontaxable) – ULH	Principal payments of $515 to $900 are due annually through maturity, and interest is due semiannually at fixed rates from 4.0% to 4.5%	2033	**$ –**	$ 10,360
Series 2010A (nontaxable) – ULH	Principal payments of $940 to $2,815 are due annually through maturity, and interest is due semi-annually at fixed rates from 4.0% to 4.4%	2030	**–**	15,415
Series 2013 (taxable) – ULF	Principal payments of $800 to $2,450 are due annually through maturity, and interest is due semiannually at fixed rates from 3.6% to 5.6%	2043	**34,180**	34,955
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

13. Bonds and Notes Payable (continued)

	Description	Fiscal Year of Maturity	2019	2018
			(In Thousands)	
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
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 $45 through maturity	2044	**3,964**	3,964
Term Note Payable – ULF	Fixed rate of 3.23%, with monthly principal and interest payments through January 1, 2023	2023	**1,396**	1,794
Total bonds and notes payable			**55,426**	82,374
Plus unamortized premium			**–**	73
Less bond issuance costs			**(791)**	(1,146)
Bonds and notes payable, net			**$ 54,635**	$ 81,301

13. Bonds and Notes Payable (continued)

Bonds Payable – ULH

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

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

As discussed further in Notes 1 and 16, in November 2018, ULH's outstanding bonds were defeased. ULH filed articles of dissolution in January 2019.

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.

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, 2019 and 2018.

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, 2019 and 2018, 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, 2019 and 2018, TNRP was in compliance with these requirements.

13. Bonds and Notes Payable (continued)

Term Note Payable – ULF

In January 2018, the Foundation issued a $1.9 million note payable that 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):

	Principal Due
2020	$ 1,166
2021	1,966
2022	2,043
2023	1,918
2024	1,726
Thereafter	46,607
	$ 55,426

14. Guarantees

Loans

As of June 30, 2019 and 2018, 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 collect expenses and costs. The total amount approved for loans was approximately $1.6 million, with $746,000 and $856,000 outstanding as of June 30, 2019 and 2018, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2019 and 2018, the amount under guarantee was $7.3 million and $7.6 million, respectively.

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

14. Guarantees (continued)

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.

15. 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 $6.1 million and $7.2 million for the years ended June 30, and , respectively, and are included in contributions and allocations to the University departments on the consolidated statements of activities and changes in net assets.

For the years ended June 30, 2019 and 2018, the Foundation recorded approximately $2.5 million and $2.7 million, respectively, in revenues from the University and related affiliates, which is included in net rental revenues and other revenues on the consolidated statements of activities and changes in net assets.

16. Transactions With University of Louisville Real Estate Foundation, Inc. and Affiliates (ULREF)

In 2019 and 2018, there were approximately $11.9 million and $0, respectively, of contributions directly from ULREF related to ULH property transfers and general assignments of its assets and liabilities.

16. Transactions With University of Louisville Real Estate Foundation, Inc. and Affiliates (ULREF) (continued)

In November 2018, ULH defeased approximately $26 million of outstanding bonds and transferred capital assets with a net book value of approximately $33 million to ULREF. ULH entered into an assignment agreement with the Foundation to transfer, assign, and convey approximately $10 million of the ULH bond escrow proceeds to the Foundation in December 2018, which were placed into the Foundation's endowment. Additionally, ULH entered into general assignment and assumption agreements in January 2019 to transfer all other assets and liabilities of ULH to ULREF. ULH filed articles of dissolution in January 2019 subsequent to these transfers.

In connection with the assignment of certain membership interests to ULREF, the Foundation entered into a memorandum of agreement effective June 30, 2016, with ULREF and certain of its affiliates whereas ULREF promises, and agrees, to pay to the Foundation approximately $28.9 million. The unpaid balances shall bear no interest. ULREF may make payments on the unpaid balance at any time, in whole or in part, without premium or penalty.

At June 30, and , the net receivable from ULREF is $17.4 million and $21.9 million, respectively, and is included as due from ULREF on the consolidated statements of financial position. The amount due from ULREF is included within the endowment assets as of June 30, 2019 and 2018. See Note 7 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, and , the Foundation payments to Preston are insignificant. In June 2019, the Foundation was released from the Master Parking Lease Agreement.

17. Leasing Activities

TNRP leases space to tenants under noncancelable operating leases. As of June 30, 2019 and 2018, TNRP had leases with five and six tenants, respectively. These leases expire in 4 to 13 years, through 2031. These leases generally require TNRP to pay all executory costs (property, taxes, maintenance, and insurance).

17. Leasing Activities (continued)

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

	Leasing Payments Due
For the year ending June 30:	
2020	$ 3,449
2021	3,505
2022	3,562
2023	3,620
2024	3,348
Thereafter	14,781
Total	$ 32,265

Major Tenants

As of June 30, 2019 and 2018, TNRP has leased approximately 95% of its leasable space to three tenants.

18. Functional Expenses

The Foundation's primary program service is contributions and allocations to the University. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques, such as square footage and time and effort.

18. Functional Expenses (continued)

Expenses by functional classification for the year ended June 30, 2019, were as follows:

	Program Services	Real Estate Operations	Management and General	Fundraising	Total
			(In Thousands)		
Contributions and allocations to University of Louisville departments	$ 55,674	$ 2,265	$ –	$ 6,119	$ 64,058
Salaries	–	1,949	943	–	2,892
Utilities	–	865	110	–	975
General and administrative	78	2,067	447	–	2,592
Professional services	–	611	1,392	–	2,003
Repairs and maintenance	–	1,749	197	–	1,946
Depreciation and amortization	–	2,553	535	–	3,088
Interest expense	–	416	1,851	–	2,267
Other expenses	–	–	747	–	747
Total expenses	55,752	12,475	6,222	6,119	80,568
Loss on contributions receivable, net	–	–	–	3,227	3,227
Actuarial gain on annuity and unitrust obligations	(40)	–	–	–	(40)
Total expenses and losses	$ 55,712	$ 12,475	$ 6,222	$ 9,346	$ 83,755

19. 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.

20. Subsequent Events

The Foundation has evaluated and disclosed subsequent events through September 26, 2019, 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 on the consolidated financial statements.