Consolidated Financial Statements

University of Louisville Real Estate 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 Real Estate Foundation, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2019 and 2018

Contents

Building a better
working world

Ernst & Young LLP
Suite 1200
400 West Market Street
Louisville, KY 40202

Tel: +1 502 585 1400
ey.com

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of the University of Louisville Real Estate 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 accordance 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 Real Estate Foundation, Inc. and Affiliates at June 30, 2019 and 2018, and the consolidated results of their activities and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 26, 2019

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30	
	2019	**2018**
Assets		
Cash	**$ 3,542**	$ 2,295
Accounts receivable, net	**781**	185
Prepaids and other assets	**775**	205
Investments	**235**	544
Investments in joint ventures	**5,973**	6,721
Tax incremental financing intangibles, net	**99,907**	104,271
In-place lease intangibles, net	**155**	497
Above-market lease intangibles, net	**2,398**	2,523
Capital assets, net	**152,005**	100,100
Total assets	**$ 265,771**	$ 217,341
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 692**	$ 527
Unearned ground lease revenue	**–**	4,193
Unearned grant revenue	**312**	680
Other liabilities	**1,064**	307
Below-market lease intangibles, net	**42**	705
Debt	**62,024**	25,277
Due to the University of Louisville	**4,261**	6,275
Due to the University of Louisville Foundation, Inc.	**20,907**	26,223
Total liabilities	**89,302**	64,187
Net assets:		
Unrestricted	**176,469**	152,266
Non-controlling interest	**–**	888
Total net assets	**176,469**	153,154
Total liabilities and net assets	**$ 265,771**	$ 217,341

See notes to consolidated financial statements.

University of Louisville Real Estate Foundation, Inc. and Affiliates

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

	Year Ended June 30	
	2019	**2018**
Revenues, gains, and other support:		
Rental revenue	**$ 10,529**	$ 4,410
Contributions from University of Louisville Foundation	**18,853**	–
Net investment return	**73**	78
Tax incremental financing revenues	**9,639**	7,970
Other revenue	**3,264**	1,284
Total revenues, gains, and other support	**42,358**	13,742
Expenses:		
Contribution expense	**968**	2,150
Salaries	**819**	169
General and administrative	**1,153**	708
Professional services	**1,229**	1,380
Utilities	**1,224**	681
Repairs and maintenance	**1,259**	692
Depreciation and amortization	**8,457**	6,530
Interest expense	**2,512**	1,357
Property taxes	**132**	68
Total expenses	**17,753**	13,735
Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc.	**24,605**	7
Change from non-controlling interest	**(1,290)**	(107)
Total changes in net assets	**23,315**	(100)
Net assets, beginning of year	**153,154**	153,254
Net assets, end of year	**$ 176,469**	$ 153,154

See notes to consolidated financial statements.

University of Louisville Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2019	**2018**
Operating activities		
Changes in net assets	**$ 23,315**	$ (100)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**8,457**	6,530
Investments in joint ventures losses	**524**	565
Loss on disposal of capital assets	**2,688**	–
Non cash contribution revenue	**(18,853)**	–
Changes in assets and liabilities:		
Accounts receivable	**(596)**	270
Prepaids and other assets	**(1,140)**	(15)
Accounts payable and other liabilities	**375**	(444)
Unearned ground lease revenue	**(4,193)**	(104)
Unearned grant revenue	**(368)**	(564)
In-place lease intangible	**170**	–
Below-market-rate lease intangible	**(558)**	–
Due from (to) the University of Louisville Foundation, Inc.	**184**	(194)
Net cash provided by operating activities	**10,005**	5,944
Investing activities		
Contributions to investment in joint ventures	**(120)**	(212)
Distributions from joint ventures	**344**	738
Purchases of investments	**(8,443)**	(13,180)
Disposition of investments	**8,752**	18,629
Purchase of capital assets	**(625)**	(500)
Disposal of capital assets	**3,591**	1,111
Repayment of notes receivable	**–**	204
Net cash provided by investing activities	**3,499**	6,790
Financing activities		
Repayments of debt	**(4,743)**	(10,500)
Repayments to the University of Louisville Foundation, Inc.	**(5,500)**	(2,500)
Repayments to the University of Louisville	**(2,014)**	(3,621)
Net cash used in financing activities	**(12,257)**	(16,621)
Net change in cash	**1,247**	(3,887)
Cash, beginning of year	**2,295**	6,182
Cash, end of year	**$ 3,542**	$ 2,295
Supplemental cash flow information		
Cash paid for interest	**$ 2,508**	$ 1,262

See notes to consolidated financial statements.

1. Description of the Organization and Summary of Significant Accounting Policies

Organization

The University of Louisville Real Estate Foundation, Inc. (ULREF) was formed in November 2014. ULREF's mission is to acquire, maintain, improve, leverage, manage, lease, and convey real and personal property for the benefit of the University of Louisville (the University). ULREF has been designated by the University and the University of Louisville Foundation, Inc. and Affiliates (the Foundation) to receive funds derived from gifts and other sources. As directed by its Board of Directors (the Board), ULREF transfers a portion of its unrestricted resources to support a variety of activities of the University.

The Foundation is an unconsolidated affiliate of the University. ULREF is presented in the financial statements of the University as a discretely presented component unit.

The accompanying consolidated financial statements include the balances and transactions of ULREF and its affiliates, including the following:

220 South Preston, LLC (Preston) is a limited liability company formed in October 2014 with a 70-year term, and whose original members were ULREF and NTS Realty Holdings Limited Partnership (NTS), an unrelated entity. Its purpose is to develop, construct, and manage a parking garage near the health sciences campus of the University. In March 2019, NTS executed its put option to sell its interest in Preston to ULREF. ULREF is now the sole member of Preston.

Louisville Medical Center Development Corporation (LMCDC) is a nonstock, nonprofit corporation whose membership interest was assigned by the Foundation to ULREF in August 2015. LMCDC was originally acquired by the Foundation in October 2008. Its purpose is to hold and administer tax increment financing (TIF) for the Louisville Life and Health Sciences Signature TIF project, the University of Louisville Research Park Project, and the ShelbyHurst Research and Technology Park Project. ULREF is the sole member of LMCDC.

Nucleus: Kentucky Life Sciences and Innovation Center, LLC (Nucleus) was formed in February 2008 and subsequently named Nucleus: Kentucky's Life Sciences and Innovation Center, LLC. Nucleus is a limited liability company whose membership interest was assigned by the Foundation to ULREF in September 2015. Its purpose is to integrate University resources, including life sciences, with those of the region, specifically as it relates to building and maintaining a research park in downtown Louisville. ULREF is the sole member of Nucleus.

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

Phoenix Place – Louisville, LLC (PPL) is a limited liability company formed in November 2008, whose membership interest was assigned by the Foundation to ULREF in September 2015. Its purpose is to develop and manage the real estate purchase and development of property near the health sciences campus of the University. ULREF is the sole member of PPL. In July 2018, PPL sold its real property and assigned rights to the property ground lease for approximately $3.6 million. PPL filed articles of dissolution in August 2018.

Cardinal Station, LLC (Cardinal Station) is a limited liability company formed in February 2008, whose membership interest was assigned by the Foundation to ULREF in September 2015. Its purpose is to develop and manage the real estate operations of Cardinal Station. ULREF is the sole member of Cardinal Station.

KYT – Louisville, LLC (KYT) is a limited liability company formed in November 2008, whose membership interest was assigned by the Foundation to ULREF in June 2016. Its purpose is to develop and manage the real estate purchase and development of property adjacent to the University. ULREF is the sole member of KYT.

Johnson Hall, LLC is a limited liability company formed in October 2016 with ULREF as a member. Its purpose is to manage the operations of Bettie Johnson Hall, a dormitory located on the University’s Belknap Campus.

Kurz Hall, LLC is a limited liability company formed in October 2016 with ULREF as a member. Its purpose is to manage the operations of Kurz Hall, a dormitory located on the University’s Belknap Campus.

Community Park, LLC is a limited liability company formed in October 2016 with ULREF as a member. Its purpose is to manage the operations of Community Park, a dormitory located on the University’s Belknap Campus.

All material intercompany balances and transactions have been eliminated in consolidation.

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

Use of Estimates

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

Cash

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

At June 30, 2019 and 2018, ULREF's cash accounts exceeded federally insured limits by approximately $3.3 million and $2.0 million, respectively.

Investments and Investment Return

Investments consist of money market mutual funds that are stated at fair value.

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

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

Fair Value Measurements

ULREF 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.

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 ULREF 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. ULREF'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.

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

Non-Controlling Interest

A non-controlling interest is defined as the portion of the net assets in a subsidiary not attributable, directly or indirectly, to a parent.

The non-controlling interest included on the consolidated statements of financial position represents the 20% interest in Preston that ULREF did not own at June 30, 2018. Losses attributable to the non-controlling interest are allocated to the non-controlling interest even if the carrying amount of the non-controlling interest is reduced below zero.

Investments in Joint Ventures

In December 2014, ULREF became a 51% owner of Campus Three, LLC (Campus Three). In March 2016, ULREF received a 51% ownership interest in Campus Two, LLC (Campus Two) from the Foundation. In July 2016, ULREF became a 51% owner of Campus 435, LLC (Campus 435); Campus 805, LLC (Campus 805); and Campus 815, LLC (Campus 815). These joint ventures build and manage commercial real estate property on the University's Shelby Campus.

The Foundation entered into ground leases to develop a portion of the University's Shelby Campus property. On or about the date of each respective lease, ULREF and NTS entered into a Development Agreement, an Operating Agreement, and a Management Agreement, which state that NTS Development Company (NTS DevCo) will be the developer and NTS Management Company (NTS Mgt Co) will be the manager, and which provide for management, leasing, and development fees to be paid by ULREF to NTS DevCo and NTS Mgt Co. The initial term of the Operating Agreement is ten years. Campus Two and Campus Three may terminate the Management Agreement for cause upon 60 days' written notice at any time. NTS 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 ULREF to purchase NTS's interest in Campus Three and/or in Campus Two.

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

ULREF has evaluated these investments as variable interest entities (VIEs) 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 an entity is deemed to be the primary beneficiary of the VIE.

All facts and circumstances are taken into consideration when determining whether ULREF 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 ULREF's consolidated financial statements. In many cases, it is qualitatively clear based on whether ULREF has the power to direct the activities significant to the VIE and, if so, whether that power is unilateral or shared, and whether ULREF 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.

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

ULREF has concluded that it is not the primary beneficiary in any of these investments, and, therefore, these investments are accounted for using the equity method of accounting.

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

In August 2017, the Board resolved to negotiate restructuring the agreements relating to Campus 435, Campus 805, and Campus 815. Significant changes include extension of the land leases by approximately 25 years from their current 65-year term. ULREF assigned its membership interest in these three project entities to NTS, and NTS will release ULREF from all financial and other obligations in the development, construction, and management of the projects. In September 2017, NTS returned to ULREF an amount equal to the development costs expended by ULREF, which approximated $340,000.

MedCenter Parking, LLC

MedCenter Parking, LLC (MedCenter), located at 501 E. Broadway, is a limited liability company formed in June 2001 whose members are Nucleus (50%) and Big A, LLC (50%), an unrelated party. Its purpose is to operate and manage parking space near the MedCenter One building on E. Broadway.

The following is a summary of the investments in joint ventures as of June 30 (in thousands):

	2019	2018
Campus Two	**$ 3,754**	$ 4,317
Campus Three	**1,866**	2,051
MedCenter	**353**	353
	$ 5,973	$ 6,721

The following is a summary of ULREF's share of joint venture losses for the years ended June 30 (in thousands):

	2019	2018
Campus Two	**$ (219)**	$ (192)
Campus Three	**(305)**	(373)
	$ (524)	$ (565)

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

Investments in joint ventures are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of the investment might not be recoverable. No impairment was recognized for the years ended June 30, 2019 or 2018.

Amortized Intangible Assets and Liabilities

Intangible assets and liabilities for in-place, above-market, and below-market leases are being amortized over the related lease terms.

TIF intangibles were recorded in connection with the transfer of LMCDC membership interest from the Foundation. The value of the intangible was derived by discounting projected future increment payments over the remaining life of the Louisville Life and Health Sciences and University of Louisville Research Park Project TIF agreements. No intangible value was assigned to the ShelbyHurst Research and Technology Park Project.

The TIF intangible assets are being amortized over the remaining 23 to 25 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Capital Assets

Capital assets are stated at cost, if purchased, and at fair value at the date of the gift, if acquired by contribution. Depreciation is charged to expense using the straight-line method based on the estimated useful lives of the assets, ranging from 3 to 40 years.

Long-Lived Asset Impairment

ULREF 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 are 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, 2019 and 2018.

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

Unearned Ground Lease Revenue

Unearned ground lease revenue consists of revenue related to a lease of land by PPL and is recognized on a straight-line basis over the lease term. In July 2018, PPL sold its real property and assigned rights to the property ground lease to the buyer. Accrued income from this lease reflected as unearned ground lease revenue was approximately $0 and $4.2 million at June 30, 2019 and 2018, respectively.

Unearned Grant Revenue

Nucleus's unearned grant revenue is recognized into revenues as expended under the terms of the agreements. Any funds not expended by Nucleus under the terms of the grant agreements are subject to being returned to the grantor.

Rental Revenue

Rental revenue includes minimum rents and expense recoveries. Minimum rents are recognized on an accrual basis over the terms of the related leases on a straight-line basis when collectibility is reasonably assured and the tenant has taken possession, or controls the physical use, of the property.

Tax Incremental Financing Revenues

TIF revenues are reimbursements from certain agreements between ULREF, the Commonwealth of Kentucky, and the Louisville/Jefferson County Metro Government. Revenues from these agreements are based on allocations of property taxes, sales and use tax, and income taxes, which vary based on the terms stated in each respective agreement. The TIF districts are located in downtown Louisville, the University's Belknap Campus area, and ShelbyHurst in east Jefferson County.

For the years ended June 30, 2019 and 2018, ULREF recorded approximately $9.6 million and $8.0 million, respectively, of TIF revenues.

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

Contributions Expense

ULREF provides University tenants with free or discounted rents. For the years ended June 30, 2019 and 2018, the amounts of free or discounted rents recognized as contributions to University tenants were approximately $1.0 million and $2.2 million, respectively. These amounts are included in contribution expense on the consolidated statements or activities and changes in net assets.

Tax Status

ULREF and LMCDC 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).

Preston was a for-profit limited liability company that elected partnership status for tax purposes. In March 2019, ULREF purchased the minority interest in Preston, and it is now considered a single-member limited liability company, disregarded for tax purposes.

The remainder of ULREF's affiliates are single-member limited liability companies, which are considered disregarded entities for tax purposes.

ULREF completed an analysis of its tax positions in accordance with applicable accounting guidance and determined there are no amounts to be recognized in the consolidated financial statements at June 30, 2019 or 2018.

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, ULREF has made reasonable estimates for the effects of the Act. ULREF will continue to revise and refine the calculations as additional IRS guidance is issued; however, ULREF does not anticipate any material impact to the consolidated financial statements.

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

Liquidity

The following represents ULREF's financial assets at June 30, 2019 and 2018 (in thousands):

		2019		2018
Financial assets at year-end:				
Cash and cash equivalents	**$**	**3,542**	$	2,295
Accounts receivable		**781**		185
Investments		**235**		544
Total financial assets	**$**	**4,558**	$	3,024

As part of its liquidity plan, ULREF invests excess cash in short-term investments, such as money market accounts.

Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a natural classification basis on the consolidated statements of activities and changes in net assets. Expenses by functional classification were as follows (in thousands):

		2019		2018
Program	**$**	**15,371**	$	11,647
Management and general		**2,382**		2,088
	$	**17,753**	$	13,735

Recent Accounting Pronouncements

Effective June 30, 2019, ULREF 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. ULREF adopted ASU 2016-14 in its consolidated financial statements, applying it retrospectively to all periods presented. The impact of adoption changes

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

the classification of net assets on the consolidated balance sheets and the consolidated statements of changes in net assets from three classes to two classes of net assets. ULREF also added additional disclosure for the liquidity and availability of financial assets at the consolidated balance sheet date to meet cash needs for general expenditures within one year and disaggregated functional expense classifications by their natural expense classification. The impact of adoption of ASU 2016-14 had no impact on revenues, gains, and other support; total expenses; or changes in net assets.

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 ULREF beginning July 1, 2019, and will be applied using a modified retrospective approach. ULREF is currently in the process of evaluating its lease contracts, as well as certain service contracts that may include embedded leases. Additionally, ULREF is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The adoption of this new standard is not expected to have a material impact on the consolidated statements of financial position, activities, and changes in net assets.

2. Investments and Investment Return

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

	2019	**2018**
Money market mutual funds	**$ 235**	$ 544

2. Investments and Investment Return (continued)

Total net investment return comprises the following and is included in net investment return on the consolidated statements of activities and changes in net assets for the years ended June 30 (in thousands):

	2019	2018
Interest and dividend income	**$ 87**	$ 104
Net realized and unrealized gains on investments	**–**	2
Realized income on investment in joint ventures	**450**	445
Change in unrealized income on investment in Preston	**60**	92
Change in unrealized loss on investments in joint ventures	**(524)**	(565)
Total net investment return	**$ 73**	$ 78

3. Capital Assets, Net

Capital assets, net at June 30 consist of the following (in thousands):

	2019	2018
Land and land improvements	**$ 51,722**	$ 56,807
Buildings	**100,864**	41,731
Building improvements	**2,072**	1,779
Tenant finish	**3,596**	3,526
Furniture, fixtures, and equipment	**2,576**	1,477
	160,830	105,320
Accumulated depreciation	**(10,100)**	(6,337)
Construction-in-progress	**1,275**	1,117
	$ 152,005	$ 100,100

Depreciation expense for the years ended June 30, 2019 and 2018, was approximately $3.8 million and $2.0 million, respectively.

4. Amortized Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30 were as follows (in thousands):

	2019		2018	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets and liabilities:				
In-place leases	**$ 525**	**$ (370)**	$ 1,268	$ (771)
Above-market leases	**2,927**	**(529)**	3,015	(492)
Tax incremental financing	**116,600**	**(16,693)**	116,600	(12,329)
Below-market leases	**(673)**	**631**	(1,449)	743

Amortization expense for each of the years ended June 30, 2019 and 2018, was approximately $4.5 million.

At June 30, 2019, the amortization for acquired TIF intangibles, in-place leases, and above- and below-market leases, net during the next five years and thereafter, assuming no early lease terminations, is as follows (in thousands):

	In-Place Leases	**Above-Market Leases**	**Tax Incremental Financing**	**Below-Market Leases**
2020	$ 81	$ 125	$ 4,364	$ (42)
2021	17	125	4,364	–
2022	17	125	4,364	–
2023	17	125	4,364	–
2024	12	125	4,364	–
Thereafter	11	1,773	78,087	–
Total	$ 155	$ 2,398	$ 99,907	$ (42)

5. Debt

Debt on the consolidated statements of financial position consists of the following at June 30 (in thousands).

	Description	Fiscal Year of Maturity	2019	2018
Construction Loan Agreement – 220 Preston, LLC	Variable rate based on LIBOR plus 1.5%, with monthly interest-only payments commencing February 2015 and principal payment at maturity	2019	**$ –**	$ 9,340
Permanent Financing – 220 Preston, LLC	Fixed 3.65% rate with 5-year maturity and 20-year amortization commencing June 2019; quarterly principal and interest payments commencing September 2019 with all outstanding principal and interest payments due in full at the maturity date	2024	**9,340**	–
Note Payable – KYT, LLC	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 and principal payment at maturity	2022	**12,000**	16,000
Northwestern Mutual Loan – Housing	Fixed 4.77% rate with 20-year amortization commencing November 2018; principal and interest payments monthly commencing January 2019	2038	**41,257**	–
	Debt		**62,597**	25,340
	Less debt issuance costs		**(573)**	(63)
	Total debt		**$ 62,024**	$ 25,277

5. Debt (continued)

Preston had a construction loan agreement with a bank with a maximum draw available amount of $10.1 million, which was secured by Preston's real estate and assignment of lease. The terms of the agreement required Preston to maintain a debt service coverage ratio of 1.00 to 1.00, which was measured annually on December 31.

Preston refinanced the construction loan in June 2019. The new permanent financing note has a fixed rate of 3.65%, 5-year maturity with a 20-year amortization with principal and interest payments due quarterly and all outstanding principal and accrued interest due in full at the maturity date. Preston is required to maintain a debt service coverage ratio of 1.00 to 1.00. At June 30, 2019, Preston was in compliance with this debt requirement.

In June 2016, KYT entered into a note payable with a financial institution to refinance $19.5 million borrowed in relation to the purchase of property adjacent to the University in 2008. The principal is due in full in July 2021. The note is collateralized by mortgages on properties and a guarantee from Cardinal Station, LLC and ULREF. ULREF is subject to certain financial covenants under the terms of the note and is in compliance with such covenants at June 30, 2019.

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

Year ending June 30:	
2020	$ 1,678
2021	1,849
2022	13,917
2023	1,987
2024	9,067
Thereafter	34,099
	$ 62,597

6. Investment in Preston

In December 2014, ULREF acquired an 80% ownership in Preston through the contribution of land and $1.3 million of cash. NTS acquired a 20% interest in Preston through the contribution of cash of $332,000. ULREF and NTS have entered into an Operating Agreement, a Development Agreement between Preston and NTS DevCo, and a Management Agreement between Preston and NTS Mgt Co whereby NTS will develop, manage, and operate the parking garage in exchange for

6. Investment in Preston (continued)

a development fee, a property management fee based on gross collected revenue, and an asset management fee. The initial term of the Management Agreement is ten years, and Preston can terminate the agreement without cause upon 190 days' written notice at any time, and, in such case, NTS may require ULREF to purchase NTS's interest at a put price as defined in the agreement.

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

NTS Realty Holdings exercised its put option to sell its interest in Preston in March 2019, resulting in ULREF acquiring NTS's 20% minority interest. ULREF is now the sole member and consolidates its interest in Preston.

The terms of Preston's financing are described in more detail in Note 5.

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

	2019	2018
Cash	**$ 151**	$ 149
Accounts receivable	**–**	10
Other assets	**–**	2
Capital assets, net	**15,474**	16,013
Total assets	**$ 15,625**	$ 16,174
Accounts payable and other liabilities	**$ 132**	$ 119
Note payable	**9,331**	9,338
Total liabilities	**$ 9,463**	$ 9,457

The operations of Preston's non-controlling interest are not considered material for the years ended June 30, 2019 and 2018.

7. Fair Value Measurements

ULREF held approximately $0.2 million and $0.5 million in money market mutual funds at June 30, 2019 and 2018, respectively. These investments are classified as Level 1 securities. Level 1 securities are stated at unadjusted quoted market prices. ULREF's custodian utilizes external pricing services in providing the valuation for all levels of securities.

8. Related-Party Transactions

ULREF entered into a service agreement with the Foundation to provide certain administrative support. For the years ended June 30, 2019 and 2018, ULREF recorded expense approximating $0.6 million and $0.7 million, respectively, which is included in professional services on the consolidated statements of activities and changes in net assets.

ULREF leases certain of its properties to University-related affiliates under operating lease agreements that expire in various years through 2026. Rental income recognized from these tenants was approximately $1.5 million and $1.4 million in 2019 and 2018, respectively.

In December 2017, ULREF signed a promissory note with the University outlining payment terms associated with the then-outstanding $7.8 million owed by ULREF. ULREF is to pay five annual installments of $1.6 million commencing in March 2018 and continuing in March of each year thereafter until March 2022. The principal of this note shall bear interest on the unpaid balance at an annual rate equal to the University's cash sweep rate plus 75 basis points, which was 2.88% at June 30, 2019.

As of June 30, 2019 and 2018, the balance of the promissory note owed by ULREF to the University is $2.7 million and $6.3 million, respectively. Also, at June 30, 2019 and 2018, ULREF owed the University dorm-related reimbursements of $1.5 million and $0, respectively. These balances are included in due to the University on the consolidated statements of financial position.

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, 2019 and 2018, the net payable due to the Foundation was $20.9 million and $26.2 million, respectively.

8. Related-Party Transactions (continued)

The ULREF Board approved the refinancing of three dormitories previously owned by a Foundation subsidiary, ULH, Inc. The refinancing closed in November 2018, and three dorms, valued at $61.4 million, were transferred to ULREF, along with the associated debt of $42 million. The terms of this loan are described in Note 5. ULREF recognized contribution revenue of $18.9 million as a result of this transaction.

9. Leasing Activities

ULREF leases space to tenants under noncancelable operating leases. As of June 30, 2019, ULREF had various leases expiring in 1 to 87 years, through 2106. These leases generally require ULREF to pay all executory costs (property taxes, maintenance, and insurance).

Rental revenue for the years ended June 30 was as follows (in thousands):

	2019	**2018**
Base minimum rents	**$ 10,432**	$ 4,401
Common area maintenance	**97**	9
	$ 10,529	$ 4,410

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

Year ending June 30:	
2020	$ 2,816
2021	2,508
2022	1,992
2023	1,621
2024	1,612
Thereafter	12,406
Total	$ 22,955

Included in the amounts above is a certain subleased property that requires ULREF to pay approximately $450,000 annually in rent for ten years, with escalating provisions during the lease term. The basic provisions of ULREF's sublease for this property are equal to its lease commitment.

10. Subsequent Events

ULREF has evaluated and disclosed subsequent events through September 26, 2019, which is the date the accompanying consolidated financial statements were made publicly available.

In July 2019, ULREF closed on the sale of property near the University's Belknap Campus. Proceeds from the sale were $2.8 million.

EY | Assurance | Tax | Transactions | Advisory