

CONSOLIDATED FINANCIAL STATEMENTS

University of Louisville Foundation, Inc. and Affiliates
Years Ended June 30, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP



University of Louisville Foundation, Inc. and Affiliates

Consolidated Financial Statements

Years Ended June 30, 2021 and 2020

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Report of Independent Auditors

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

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, 2021 and 2020, 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 of America. 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, 2021 and 2020, 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.

Ernst & Young LLP

September 29, 2021

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30	
	2021	2020
Assets		
Cash	\$ 8,273	\$ 6,503
Accounts and notes receivable, net	4,469	4,282
Loans receivable, net	1,000	15,404
Contributions receivable, net	14,148	14,014
Due from the University of Louisville Real Estate Foundation, Inc.	12,053	16,734
Investments	905,077	682,811
Funds held in trust by others	74,711	58,516
Prepaid expenses and other assets	5,469	5,751
Capital assets, net	50,467	53,009
Total assets	<u>\$ 1,075,667</u>	<u>\$ 857,024</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 831	\$ 899
Funds held in trust for others	14,488	13,635
Other liabilities	12,395	10,686
Bonds and notes payable	32,731	53,391
Due to the University of Louisville	4,543	6,281
Total liabilities	<u>64,988</u>	<u>84,892</u>
Net assets:		
Without donor restrictions	60,316	40,936
With donor restrictions	950,363	731,196
Total net assets	<u>1,010,679</u>	<u>772,132</u>
Total liabilities and net assets	<u>\$ 1,075,667</u>	<u>\$ 857,024</u>

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, 2021 and 2020

	Without Donor Restrictions		With Donor Restrictions		Totals	
	2021	2020	2021	2020	2021	2020
Revenues, gains, and other support:						
Gifts	\$ 569	\$ 2,020	\$ 38,067	\$ 56,857	\$ 38,636	\$ 58,877
Net investment return (loss)	16,517	1,646	219,870	(4,466)	236,387	(2,820)
Changes in funds held in trust by others	—	—	17,833	2,191	17,833	2,191
Net rental revenues	4,594	4,523	—	—	4,594	4,523
Other revenues	3,744	3,110	—	—	3,744	3,110
Net assets released from restrictions	51,620	71,452	(51,620)	(71,452)	—	—
Total revenues, gains, and other support	77,044	82,751	224,150	(16,870)	301,194	65,881
Expenses:						
Contributions and allocations to University of Louisville departments	42,359	49,365	—	—	42,359	49,365
Contributions and allocations to UofL Health, Inc.	7,544	17,520	—	—	7,544	17,520
Salaries	2,671	2,568	—	—	2,671	2,568
Utilities	597	650	—	—	597	650
General and administrative	1,358	1,741	—	—	1,358	1,741
Professional services	1,554	2,199	—	—	1,554	2,199
Repairs and maintenance	1,431	1,355	—	—	1,431	1,355
Depreciation and amortization	2,931	2,515	—	—	2,931	2,515
Interest expense	1,808	1,964	—	—	1,808	1,964
Other expenses	707	802	—	—	707	802
Total expenses	62,960	80,679	—	—	62,960	80,679
Gain on extinguishment of debt	(5,296)	—	—	—	(5,296)	—
Loss on contributions receivable, net	—	—	3,662	4,196	3,662	4,196
Actuarial loss (gain) on annuity and unitrust obligations	—	—	1,321	(207)	1,321	(207)
Total expenses and losses	57,664	80,679	4,983	3,989	62,647	84,668
Changes in net assets	19,380	2,072	219,167	(20,859)	238,547	(18,787)
Net assets, beginning of year	40,936	38,864	731,196	752,055	772,132	790,919
Net assets, end of year	\$ 60,316	\$ 40,936	\$ 950,363	\$ 731,196	\$ 1,010,679	\$ 772,132

See notes to consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2021	2020
Operating activities		
Changes in net assets	\$ 238,547	\$ (18,787)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Contributions of capital assets	-	(800)
Net change in unrealized (gain) loss on investments and alternative investments net return	(236,387)	2,820
Changes in funds held in trust by others	(17,833)	(2,191)
Depreciation and amortization expense	2,931	2,515
Loss on contributions receivable	3,662	4,196
Contributions restricted for long-term investment	(6,571)	(13,976)
Gain on extinguishment of debt	(5,296)	-
Changes in assets and liabilities:		
Accounts and notes receivable, net	(187)	588
Contributions receivable, net	(2,996)	(2,392)
Due from the University of Louisville Real Estate Foundation, Inc.	4,681	676
Prepaid expenses and other assets	(298)	(8)
Accounts payable	(68)	(150)
Funds held in trust for others	853	(5,920)
Other liabilities	2,413	721
Due to the University of Louisville	(1,738)	4,898
Net cash used in operating activities	(18,287)	(27,810)
Investing activities		
Purchases of investments	(362,846)	(621,581)
Proceeds from sales of investments	378,605	633,917
Purchases of capital assets	(195)	-
Payments on note receivable	-	316
Net cash provided by investing activities	15,564	12,652
Financing activities		
Contributions restricted for long-term investment	6,571	13,976
Payments to annuitants	(704)	(801)
Principal payments on bonds and notes payable	(1,374)	(1,299)
Net cash provided by financing activities	4,493	11,876
Net increase (decrease) in cash and cash equivalents	1,770	(3,282)
Cash and cash equivalents, beginning of year	6,503	9,785
Cash and cash equivalents, end of year	\$ 8,273	\$ 6,503
Supplemental cash flow information		
Cash paid for interest	\$ 1,818	\$ 1,972

See notes to consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, unless otherwise noted:

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.

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. TNRP filed articles of dissolution in November 2020.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

The Nucleus Real Properties, LLC (TNRP, LLC) is a limited liability company formed in November 2020. Its 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. TNRP, LLC is the successor entity to TNRP.

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).

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.

Cash and Cash Equivalents

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, 2021 and 2020, the Foundation's cash accounts exceeded federally insured limits by approximately \$8.3 million and \$6.3 million, respectively.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

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.

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 is included in net assets with donor restrictions. 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.

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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

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.

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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

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. 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 these investments for consolidation under Accounting Standards Update (ASU) 2017-02, Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity.

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

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 investee 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 investee and, if so, whether that power is unilateral or shared, and whether the

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

Foundation is obligated to absorb significant losses of, or has a right to receive significant benefits from, the investee. 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 investments to determine whether any reconsideration events have occurred that could impact the conclusion to these investments. The Foundation reconsiders whether it is the primary beneficiary of an investee on an ongoing basis. A previously unconsolidated investee is consolidated when the Foundation becomes the primary beneficiary. A previously consolidated investee is deconsolidated when the Foundation ceases to be the primary beneficiary.

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

At June 30, 2021 and 2020, the Foundation's loss in excess of its investment was approximately \$(456,000) and \$(787,000), 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 estimated fair market value on the date of the gift.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flow expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. There was no impairment loss recognized during the years ended June 30, 2021 and 2020.

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 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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

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.

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 \$571,000 and \$2.1 million of in-kind gifts for the years ended June 30, 2021 and 2020, 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 accounts and notes receivable, net on the consolidated statements of financial position, was approximately \$3.4 million for each of the years ended June 30, 2021 and 2020.

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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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

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, 2021 or 2020.

Recent Accounting Pronouncements

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 Foundation adopted this standard in July 2020 with no material impact to the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) – Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-financial Assets*. This ASU intends to improve the transparency of disclosures in the notes to financial statements by requiring distinct presentation of contributed non-financial assets within the statement of activities and clarification of the contributed non-financial assets by category within the notes. The ASU is effective for annual reporting periods ending after June 15, 2022, with early adoption permitted. The Foundation is currently evaluating the effect this new standard will have on its financial statements.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Financial Assets and Liquidity Resources

As of June 30, 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:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Financial assets at year end:		
Cash	\$ 8,273	\$ 6,503
Accounts and notes receivable, net	4,469	4,282
Loans receivable, net	1,000	15,404
Contributions receivable, net	14,148	14,014
Due from the University of Louisville Real Estate Foundation, Inc.	12,053	16,734
Investments	905,077	682,811
Funds held in trust by others	74,711	58,516
Total financial assets	<u>1,019,731</u>	<u>798,264</u>
Less amounts not available to be used within one year:		
Endowments with donor restrictions, net of current year spending appropriations	(616,105)	(448,712)
Quasi-endowments established by the board, net of current year spending appropriations	(212,237)	(163,059)
Loan receivable not due within one year	-	(14,404)
Funds held in trust by others	(74,711)	(58,516)
Contributions receivable not due within one year	(10,538)	(7,425)
	<u>(913,591)</u>	<u>(692,116)</u>
Total financial assets available to meet general expenditures over the next twelve months	<u>\$ 106,140</u>	<u>\$ 106,148</u>

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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 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 for operation, 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.

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:

	2021	2020
	<i>(In Thousands)</i>	
Instruction	\$ 47,518	\$ 77,971
Research	427,663	261,309
Academic support	180,569	148,961
Student services and financial aid	199,576	162,966
Institutional support	47,518	43,523
Other	47,519	36,466
	\$ 950,363	\$ 731,196

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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 \$4.5 million and \$6.3 million as of June 30, 2021 and 2020, 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.

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. NIIF was immediately dissolved, eliminating the promissory note. At June 30, 2021 and 2020, the principal balance of the note was \$0 and \$14,404,000, respectively, and is recorded in loans receivable, net on the consolidated statements of financial position. For each of the years ended June 30, 2021 and 2020, the Foundation received interest income approximating \$30,000 and \$144,000, respectively, which is included in net investment return on the consolidated statements of activities and changes in net assets. In September 2020, under the plan of dissolution and liquidation, NIIF membership rights were assigned to ULF and the note was forgiven. See Note 13 for further discussion.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Contributions Receivable, Net

Contributions receivable are discounted using rates on risk-free obligations ranging from 0.2% to 5.9% for both 2021 and 2020. Contributions receivable, certain of which are restricted by donors, as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Less than one year	\$ 10,471	\$ 10,446
One to four years	7,394	5,397
Greater than four years	3,144	2,028
	<u>21,009</u>	17,871
Allowance for doubtful accounts	(6,487)	(3,415)
Unamortized discount	(374)	(442)
Contributions receivable, net	<u>\$ 14,148</u>	<u>\$ 14,014</u>

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:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Bequests	\$ 281,359	\$ 285,898
Other	32,438	42,583
Total	<u>\$ 313,797</u>	<u>\$ 328,481</u>

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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Donor-restricted endowment funds	\$ —	\$ 650,132	\$ 650,132
Board-designated endowment funds	36,987	176,329	213,316
	<u>\$ 36,987</u>	<u>\$ 826,461</u>	<u>\$ 863,448</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Donor-restricted endowment funds	\$ —	\$ 484,984	\$ 484,984
Board-designated endowment funds	31,380	133,137	164,517
	<u>\$ 31,380</u>	<u>\$ 618,121</u>	<u>\$ 649,501</u>

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Endowments (continued)

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Endowment net assets, beginning of year	\$ 31,380	\$ 618,121	\$ 649,501
Investment return:			
Investment and endowment income	221	4,713	4,934
Net depreciation	10,160	210,686	220,846
Total investment losses	10,381	215,399	225,780
Contributions	–	6,571	6,571
Appropriations	(660)	(22,045)	(22,705)
Other changes	(4,114)	8,415	4,301
Endowment net assets, end of year	\$ 36,987	\$ 826,461	\$ 863,448
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
	<i>(In Thousands)</i>		
Endowment net assets, beginning of year	\$ 38,421	\$ 625,658	\$ 664,079
Investment return:			
Investment and endowment income	257	4,591	4,848
Net depreciation	(349)	(11,044)	(11,393)
Total investment losses	(92)	(6,453)	(6,545)
Contributions	–	13,976	13,976
Appropriations	(1,339)	(26,239)	(27,578)
Other changes	(5,610)	11,179	5,569
Endowment net assets, end of year	\$ 31,380	\$ 618,121	\$ 649,501

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Endowments (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with or without donor restrictions and aggregated to approximately \$0 and \$24 million at June 30, 2021 and 2020, 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.

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 (i.e., "spending policy") of appropriating for expenditure each year a percentage of certain endowment funds' average market values over the prior twelve-quarters 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 May 2020, the Board of the Foundation approved a 3.00% spending policy for the fiscal year 2020-2021 for support to the academic units and allocated 1.00% for overall fundraising efforts and operations of the Foundation. The spending policy is based on a twelve-quarter moving average of certain market values as of December 31.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Endowments (continued)

In April 2021, the Board of the Foundation approved a 3.00% spending policy for the fiscal year 2021-2022 for support to the academic units and allocated 1.00% for overall fundraising efforts and operations of the Foundation. The spending policy is based on a twelve-quarter moving average of certain market values as of December 31.

The Foundation has adopted an investment objective to preserve its purchasing power while providing a continuing, stable, and sustainable funding source to support the current and future mission of the University. The Foundation's investments seek to generate a total return that will exceed not only its spending rate, but also all expenses associated with managing the fund and the eroding effects of inflation. Investments are managed on a total return basis, consistent with the applicable standard of conduct set forth in the UPMIFA. The annual return (loss) for total endowment assets was 34% and (1.7%) in 2021 and 2020, respectively.

8. Investments and Investment Income

Investments as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Cash equivalents	\$ 50,790	\$ 55,291
Alternative investments:		
Hedge funds	137,470	129,057
Investments in partnerships	451,571	328,695
Mutual funds:		
Equity	153,005	88,244
Fixed income	18,837	18,455
Marketable alternatives:		
Domestic marketable equity securities	50,996	37,561
Marketable debt securities:		
U.S. Treasury	42,408	25,508
Total investments	<u>\$ 905,077</u>	<u>\$ 682,811</u>

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Investments and Investment Income (continued)

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.

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. 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 main 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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Investments and Investment Income (continued)

Alternative Investments

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

	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	<i>(In Thousands)</i>			
Hedge funds	\$ 137,470	\$ –	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	451,571	66,951	Various from monthly to illiquid	Various from 30 to 180 days
	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	<i>(In Thousands)</i>			
Hedge funds	\$ 129,057	\$ 1,000	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships	328,695	65,882	Various from monthly to illiquid	Various from 30 to 180 days

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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:

	2021		
	Level 1	Level 2	Total
	<i>(In Thousands)</i>		
Cash	\$ 8,273	\$ –	\$ 8,273
Cash equivalents	50,790	–	50,790
Mutual funds:			
Equity	153,005	–	153,005
Fixed income	18,837	–	18,837
Domestic marketable equity securities	50,996	–	50,996
Marketable debt securities:			
U.S. Treasury	42,408	–	42,408
Total investments	<u>316,036</u>	–	<u>316,036</u>
Funds held in trust by others	–	74,711	74,711
Total cash, investments, funds held in trusts by others, and restricted investments	<u>\$ 324,309</u>	<u>\$ 74,711</u>	<u>\$ 399,020</u>
Investments at NAV:			
Hedge funds			137,470
Investments in partnerships			451,571
			<u>\$ 988,061</u>

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Fair Value Measurements (continued)

	2020		
	Level 1	Level 2	Total
	<i>(In Thousands)</i>		
Cash	\$ 6,503	\$ —	\$ 6,503
Cash equivalents	55,291	—	55,291
Mutual funds:			
Equity	88,244	—	88,244
Fixed income	18,455	—	18,455
Domestic marketable equity securities	37,561	—	37,561
Marketable debt securities:			
U.S. Treasury	25,508	—	25,508
Total investments	<u>225,059</u>	<u>—</u>	<u>225,059</u>
Funds held in trust by others	<u>—</u>	<u>58,516</u>	<u>58,516</u>
Total cash, investments, funds held in trusts by others, and restricted investments	<u>\$ 231,562</u>	<u>\$ 58,516</u>	<u>290,078</u>
Investments at NAV:			
Hedge funds			129,057
Investments in partnerships			328,695
			<u>\$ 747,830</u>

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, 2021.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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, 2021 and 2020. 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.

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 \$35 million and \$26 million as of June 30, 2021 and 2020, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately \$40 million and \$32 million as of June 30, 2021 and 2020, respectively. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2021 and 2020, the Foundation recorded income of \$17.8 million and \$2.2 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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

11. Capital Assets

Capital assets as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
	<i>(In Thousands)</i>	
Land	\$ 5,483	\$ 5,483
Buildings	37,875	37,868
Other plant assets	<u>22,187</u>	<u>21,999</u>
	<u>65,545</u>	<u>65,350</u>
Accumulated depreciation	(16,066)	(14,128)
Construction in process	988	1,787
Total capital assets, net	<u>\$ 50,467</u>	<u>\$ 53,009</u>

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, 2021 and 2020, the Foundation held approximately \$3.5 million and \$5.5 million, respectively, for the Association's investment purposes.

The Foundation entered into an agreement with Legacy Foundation of Kentuckiana, formerly 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, 2021 and 2020, the Foundation held approximately \$10.7 million and \$8.0 million, respectively, 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, 2021 and 2020, the Foundation held approximately \$274,000 and \$200,000, respectively, 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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Bonds and Notes Payable

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

	Description	Fiscal Year of Maturity	2021	2020
<i>(In Thousands)</i>				
Series 2013 (taxable) – ULF	Principal payments of \$850 to \$2,450 are due annually through maturity, and interest is due semiannually at fixed rates from 3.6% to 5.6%	2043	\$ 32,555	\$ 33,380
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
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
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
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
Term Note Payable – ULF	Fixed rate of 3.23%, with monthly principal and interest payments through January 1, 2023	2023	498	897
Total bonds and notes payable			33,053	54,127
Less bond issuance costs			(322)	(736)
Bonds and notes payable, net			\$ 32,731	\$ 53,391

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Bonds and Notes Payable (continued)

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 were 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 \$0 and \$19.9 million at June 30, 2021 and 2020.

Under the terms of the loan agreements, the loans had 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 pays 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, 2021 and 2020, was approximately \$30,000 and \$144,000, respectively.

During September 2020, PNC and NNMF assigned rights to their loan agreements, including mortgage security interests in the property, with TNRP to NIIF. PNC exercised its put option to the Foundation for its interest in NIIF for \$1,000. NIIF was dissolved and the promissory note was forgiven eliminating the note receivable and payable. During closing, TNRP paid approximately \$173,000 to NNMF, of which \$150,000 was a principal payment on NNMF Note B. TNRP's remaining restricted cash balance was transferred to its operating account. Legal fees incurred were approximately \$17,000 and the Foundation recorded a \$5.3 million gain which is included in gain on extinguishment of debt on the consolidated statements of activities and changes in net assets.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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):

	<u>Principal Due</u>
2022	\$ 1,116
2023	1,118
2024	920
2025	960
2026	1,000
Thereafter	<u>27,939</u>
	<u>\$ 33,053</u>

14. Guarantees

Loans

As of June 30, 2021 and 2020, 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 \$511,000 and \$621,000 outstanding as of June 30, 2021 and 2020, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One. As of June 30, 2021 and 2020, the amount under guarantee was \$6.6 million and \$6.9 million, respectively.

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

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

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 \$6.3 million and \$6.0 million for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, the Foundation recorded approximately \$2.3 million 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 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, 2021 and 2020, the net receivable from ULREF is \$12.1 million and \$16.7 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, 2021 and 2020. See Note 7 for further information regarding the endowment.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

17. Leasing Activities

TNRP leases space to tenants under noncancelable operating leases. As of June 30, 2021 and 2020, TNRP had leases with four tenants. These leases expire in 2 to 10 years, through 2031. These leases generally require TNRP to pay all executory costs (property, taxes, maintenance, and insurance).

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

	Leasing Payments Due
2022	\$ 3,579
2023	3,640
2024	3,382
2025	2,300
2026	2,059
Thereafter	11,651
	<u>\$ 26,611</u>

Major Tenants

As of June 30, 2021 and 2020, TNRP has leased approximately all 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.

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

18. Functional Expenses (continued)

Expenses by functional classification for the year ended June 30, 2021 and 2020, were as follows:

	2021				Total
	Program Services	Real Estate Operations	Management and General	Fundraising	
	<i>(In Thousands)</i>				
Contributions and allocations to University of Louisville departments	\$ 36,240	\$ (200)	\$ —	\$ 6,319	\$ 42,359
Contributions and allocations to UofL Health – Louisville, LLC	7,544	—	—	—	7,544
Salaries	—	1,706	965	—	2,671
Utilities	—	570	27	—	597
General and administrative	22	861	475	—	1,358
Professional services	—	375	1,179	—	1,554
Repairs and maintenance	—	1,359	72	—	1,431
Depreciation and amortization	—	2,516	415	—	2,931
Interest expense	—	30	1,778	—	1,808
Other expenses	—	—	707	—	707
Total expenses	43,806	7,217	5,618	6,319	62,960
Gain on extinguishment of debt	—	(5,296)	—	—	(5,296)
Loss on contributions receivable, net	—	—	—	3,662	3,662
Actuarial gain on annuity and unitrust obligations	1,321	—	—	—	1,321
Total expenses and losses	\$ 45,127	\$ 1,921	\$ 5,618	\$ 9,981	\$ 62,647

University of Louisville Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

18. Functional Expenses (continued)

	2020				
	Program Services	Real Estate Operations	Management and General	Fundraising	Total
	<i>(In Thousands)</i>				
Contributions and allocations to University of Louisville departments	\$ 44,240	\$ (875)	\$ –	\$ 6,000	\$ 49,365
Contributions and allocations to UofL Health – Louisville, LLC	17,520	–	–	–	17,520
Salaries	–	1,622	946	–	2,568
Utilities	–	622	28	–	650
General and administrative	72	1,257	412	–	1,741
Professional services	–	353	1,846	–	2,199
Repairs and maintenance	–	1,259	96	–	1,355
Depreciation and amortization	–	2,007	508	–	2,515
Interest expense	–	146	1,818	–	1,964
Other expenses	–	–	802	–	802
Total expenses	61,832	6,391	6,456	6,000	80,679
Loss on contributions receivable, net	–	–	–	4,196	4,196
Actuarial gain on annuity and unitrust obligations	(207)	–	–	–	(207)
Total expenses and losses	\$ 61,625	\$ 6,391	\$ 6,456	\$ 10,196	\$ 84,668

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 29, 2021, 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, other than those previously disclosed.

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