Consolidated Financial Statements

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

Ernst & Young LLP

Building a better working world

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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
Louisville, Kentucky

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, 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 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 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 Real Estate 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 Real Estate Foundation, Inc. and Affiliates

Consolidated Statements of Financial Position
(In Thousands)

	June 30 2021	June 30 2020
Assets		
Cash	**$ 10,468**	$ 4,418
Accounts receivable, net	**661**	2,544
Prepaids and other assets	**1,059**	918
Investments	**–**	70
Investments in joint ventures	**4,411**	4,912
Tax incremental financing intangibles, net	**91,179**	95,543
In-place lease intangibles, net	**44**	54
Above-market lease intangibles, net	**2,143**	2,266
Capital assets, net	**140,609**	145,294
Total assets	**$ 250,574**	$ 256,019
Liabilities and net assets		
Liabilities:		
Accounts payable	**$ 291**	$ 323
Unearned grant revenue	**8**	59
Other liabilities	**1,021**	793
Debt	**58,501**	60,295
Due to the University of Louisville	**–**	1,080
Due to the University of Louisville Foundation, Inc.	**14,880**	19,895
Total liabilities	**74,701**	82,445
Total net assets	**175,873**	173,574
Total liabilities and net assets	**$ 250,574**	$ 256,019

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 2021	2020
Revenues, gains, and other support:		
Rental revenue	**$ 12,337**	$ 13,189
Net investment return (loss)	**484**	(233)
Tax incremental financing revenues	**7,553**	1,911
Other revenue	**983**	1,760
Total revenues, gains, and other support	**21,357**	16,627
Expenses:		
Contribution expense	**674**	687
Salaries	**1,181**	1,014
General and administrative	**1,627**	1,924
Professional services	**1,300**	1,217
Utilities	**1,397**	1,325
Repairs and maintenance	**1,395**	1,310
Depreciation and amortization	**9,027**	9,296
Interest expense	**2,457**	2,749
Total expenses	**19,058**	19,522
Changes in net assets	**2,299**	(2,895)
Net assets, beginning of year	**173,574**	176,469
Net assets, end of year	**$ 175,873**	$ 173,574

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	
	2021	**2020**
Operating activities		
Changes in net assets	**$ 2,299**	$ (2,895)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	**9,027**	9,296
Investments in joint ventures losses	**42**	729
Gain on disposal of capital assets	**–**	(483)
Changes in assets and liabilities:		
Accounts receivable	**1,883**	(1,763)
Prepaids and other assets	**(165)**	(165)
Accounts payable and other liabilities	**196**	(641)
Unearned grant revenue	**(51)**	(253)
Due to the University of Louisville Foundation, Inc.	**(15)**	(12)
Net cash provided by operating activities	**13,216**	3,813
Investing activities		
Distributions from joint ventures	**459**	332
Purchases of investments	**–**	(4,413)
Disposition of investments	**70**	4,579
Purchase of capital assets	**(65)**	(212)
Disposal of capital assets	**305**	2,748
Net cash provided by investing activities	**769**	3,034
Financing activities		
Repayments of debt	**(1,855)**	(1,790)
Repayments to the University of Louisville Foundation, Inc.	**(5,000)**	(1,000)
Repayments to the University of Louisville	**(1,080)**	(3,181)
Net cash used in financing activities	**(7,935)**	(5,971)
Net change in cash	**6,050**	876
Cash, beginning of year	**4,418**	3,542
Cash, end of year	**$ 10,468**	$ 4,418
Supplemental cash flow information		
Cash paid for interest	**$ 2,438**	$ 2,651

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 2020, 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. The ShelbyHurst Research and Technology Park Project expired June 30, 2020. ULREF is the sole member of LMCDC.

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

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.

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, 2021 and 2020, ULREF's cash accounts exceeded federally insured limits by approximately $10 million and $4.2 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.

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

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

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)

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. 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.

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

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

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.

MedCenter Parking, LLC

MedCenter Parking, LLC (MedCenter), located at 501 E. Broadway, is a limited liability company formed in June 2001 whose members are ULREF (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):

	2021	2020
Campus Two	**$ 2,847**	$ 3,345
Campus Three	**1,210**	1,214
MedCenter	**354**	353
	$ 4,411	$ 4,912

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

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

	2021	2020
Campus Two	**$ (69)**	$ (77)
Campus Three	**27**	(652)
	$ (42)	$ (729)

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, 2021 or 2020.

Amortized Intangible Assets and Liabilities

Intangible assets and liabilities for in-place and above-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.

The TIF intangible assets are being amortized over the remaining 21 to 23 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.

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

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, 2021 and 2020.

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 and the University's Belknap Campus area.

For the years ended June 30, 2021 and 2020, ULREF recorded approximately $7.6 million and $1.9 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, 2021 and 2020, the amounts of free or discounted rents recognized as contributions to University tenants were approximately $674,000 and $687,000, 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 2020, 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, 2021 or 2020.

Liquidity

The following represents ULREF's financial assets at June 30, 2021 and 2020 (in thousands):

	2021	2020
Financial assets at year-end:		
Cash	**$ 10,468**	$ 4,418
Accounts receivable	**661**	2,544
Investments	**–**	70
Total financial assets	**$ 11,129**	$ 7,032

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

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):

	2021	2020
Program	**$ 16,131**	$ 16,381
Management and general	**2,927**	3,141
	$ 19,058	$ 19,522

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 ASU is effective for ULREF beginning July 1, 2022 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):

	2021	2020
Money market mutual funds	**$ –**	$ 70

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

	2021	2020
Interest and dividend income	**$ 1**	$ 29
Net realized and unrealized gains on investments	**–**	2
Realized income on investment in joint venture	**525**	465
Change in unrealized loss on investments in joint ventures	**(42)**	(729)
Total net investment return (loss)	**$ 484**	$ (233)

3. Capital Assets, Net

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

	2021	2020
Land and land improvements	**$ 49,642**	$ 49,622
Buildings	**100,652**	100,864
Building improvements	**2,153**	2,153
Tenant finish	**3,542**	3,542
Furniture, fixtures, and equipment	**2,622**	2,576
	158,611	158,757
Accumulated depreciation	**(18,977)**	(14,569)
Construction-in-progress	**975**	1,106
	$ 140,609	$ 145,294

Depreciation expense for the years ended June 30, 2021 and 2020, was approximately $4.4 million and $4.7 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):

	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets and liabilities:				
In-place leases	$ 354	$ (310)	$ 431	$ (377)
Above-market leases	2,917	(774)	2,925	(659)
Tax incremental financing	116,600	(25,421)	116,600	(21,057)

Amortization expense for the years ended June 30, 2021 and 2020, was approximately $4.6 million and $4.5 million, respectively.

At June 30, 2021, the amortization for acquired TIF intangibles, in-place leases, and above-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
2022	$ 11	$ 123	$ 4,364
2023	11	123	4,364
2024	11	123	4,364
2025	9	123	4,364
2026	2	123	4,364
Thereafter	–	1,528	69,359
Total	$ 44	$ 2,143	$ 91,179

5. Debt

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

	Description	Fiscal Year of Maturity	2021	2020
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	$ 8,406	$ 8,873
Note Payable – KYT, LLC	Variable rate based on LIBOR plus 1.95%, with interest-only payments commencing August 2016 and principal payment at maturity	2024	12,000	12,000
Northwestern Mutual Loan – Housing	Fixed 4.77% rate with 20-year amortization commencing November 2018; principal and interest payments monthly commencing January 2019	2038	38,546	39,934
Debt			58,952	60,807
Less debt issuance costs			(451)	(512)
Total debt			$ 58,501	$ 60,295

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 2020. 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, 2021, Preston was in compliance with this debt requirement.

5. Debt (continued)

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 terms of this note were modified in July 2021. The modified note has an interest rate of 1.95% per annum plus the one-month LIBOR rate. Interest only is payable beginning July 1, 2021, and on the first day of each consecutive month thereafter, with the remaining $12 million principal due in full in July 2023. 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, 2021.

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

Year ending June 30:	
2022	$ 1,798
2023	1,987
2024	21,067
2025	1,672
2026	1,754
Thereafter	30,674
	$ 58,952

6. Fair Value Measurements

ULREF held approximately $0 and $70,000 in money market mutual funds at June 30, 2021 and 2020, respectively. These investments are classified as Level 1 securities. Level 1 securities are stated at unadjusted quoted market prices. ULREF utilizes external pricing services in providing the valuation for all levels of securities.

7. Related-Party Transactions

ULREF entered into a service agreement with the Foundation to provide certain administrative support. For the years ended June 30, 2021 and 2020, ULREF recorded expense approximating $680,000 and $640,000, 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 $1.9 million and $1.8 million in 2021 and 2020, 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 .75% at June 30, 2021.

As of June 30, 2021 and 2020, the balance of the promissory note owed by ULREF to the University is $0 and $1.1 million, respectively, as ULREF paid this note in full prior to its maturity. 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, 2021 and 2020, the net payable due to the Foundation was $14.9 million and $19.9 million, respectively.

8. Leasing Activities

ULREF leases space to tenants under noncancelable operating leases. As of June 30, 2021, ULREF had various leases expiring monthly to 85 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):

	2021	2020
Base minimum rents	**$ 12,198**	$ 13,059
Common area maintenance	**139**	130
	$ 12,337	$ 13,189

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

Year ending June 30:	
2022	$ 2,896
2023	2,386
2024	2,347
2025	1,799
2026	1,585
Thereafter	20,463
Total	$ 31,476

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.

9. Subsequent Events

ULREF has evaluated and disclosed subsequent events through September 29, 2021, which is the date the accompanying consolidated financial statements were made publicly available.

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