Consolidated Financial Statements and Report of Independent Certified Public Accountants

University of Louisville Foundation, Inc. and Affiliates

June 30, 2023 and 2022

Contents

GRANT THORNTON LLP
Grant Thornton Tower
171 N. Clark St., Suite 200
Chicago, IL 60601-3370

D +1 312 856 0200
F +1 312 602 8099

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion
We have audited the consolidated financial statements of University of Louisville Foundation, Inc. and Affiliates (the "Entity"), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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 financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Entity as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion
We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for one year after the date the financial statements are issued.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable

assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Chicago, Illinois
September 22, 2023

University of Louisville Foundation, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30,
(In thousands)

	2023	2022
ASSETS		
Cash	$ 4,180	$ 3,311
Accounts receivable, net	4,489	4,413
Other receivables, net	1,000	1,000
Contributions receivable, net	13,112	17,464
Due from the University of Louisville Real Estate Foundation, Inc.	4,566	8,617
Investments	911,844	878,527
Funds held in trust by others	65,903	63,360
Prepaid expenses and other assets	4,556	5,055
Capital assets, net	47,163	48,915
Total assets	$ 1,056,813	$ 1,030,662
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 1,281	$ 989
Funds held in trust for others	14,435	14,096
Other liabilities	10,570	10,767
Bonds and notes payable	30,541	31,504
Due to the University of Louisville	4,974	4,064
Total liabilities	61,801	61,420
Net assets:		
Without donor restrictions	60,855	59,287
With donor restrictions	934,157	909,955
Total net assets	995,012	969,242
Total liabilities and net assets	$ 1,056,813	$ 1,030,662

The accompanying notes are an integral part of these consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years ended June 30, 2023 and 2022
(In thousands)

	Without Donor Restrictions		With Donor Restrictions		Totals	
	2023	2022	2023	2022	2023	2022
Revenues, gains, and other support:						
Gifts	$ 893	$ 255	$ 45,744	$ 50,055	$ 46,637	$ 50,310
Investment return (loss), net	6,431	(651)	41,075	(18,374)	47,506	(19,025)
Changes in funds held in trust by others	–	–	5,379	(12,941)	5,379	(12,941)
Rental revenues	4,753	4,718	–	–	4,753	4,718
Other revenues	3,659	4,367	–	–	3,659	4,367
Net assets released from restrictions	66,388	58,008	(66,388)	(58,008)	–	–
Total revenues, gains, and other support	82,124	66,697	25,810	(39,268)	107,934	27,429
Expenses:						
Contributions and allocations to University of Louisville departments	57,280	45,505	–	–	57,280	45,505
Contributions and allocations to UofL Health - Louisville, Inc.	10,594	10,656	–	–	10,594	10,656
Salaries	3,256	2,792	–	–	3,256	2,792
Utilities	738	700	–	–	738	700
General and administrative	1,492	1,335	–	–	1,492	1,335
Professional services	555	545	–	–	555	545
Repairs and maintenance	1,734	1,567	–	–	1,734	1,567
Depreciation and amortization	2,201	2,224	–	–	2,201	2,224
Interest expense	1,692	1,745	–	–	1,692	1,745
Other expenses	1,014	657	–	–	1,014	657
Total expenses	80,556	67,726	–	–	80,556	67,726
Provision for uncollectible contributions receivable	–	–	1,725	2,262	1,725	2,262
Actuarial gain on annuity and unitrust obligations	–	–	(117)	(1,122)	(117)	(1,122)
Total expenses and losses	80,556	67,726	1,608	1,140	82,164	68,866
CHANGES IN NET ASSETS	1,568	(1,029)	24,202	(40,408)	25,770	(41,437)
Net assets, beginning of year	59,287	60,316	909,955	950,363	969,242	1,010,679
Net assets, end of year	$ 60,855	$ 59,287	$ 934,157	$ 909,955	$ 995,012	$ 969,242

The accompanying notes are an integral part of these consolidated financial statements.

University of Louisville Foundation, Inc. and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,
(In thousands)

	2023	2022
Operating activities		
Changes in net assets	$ 25,770	$ (41,437)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Realized and unrealized loss (gain) on investments, net	(47,506)	19,025
Changes in funds held in trust by others	(5,379)	12,941
Depreciation and amortization expense	2,201	2,224
Provision for uncollectible contributions receivable	(276)	2,262
Contributions restricted for long-term investment	(13,085)	(6,467)
Loss on disposal of capital assets	212	–
Changes in assets and liabilities:		
Accounts and notes receivable, net	(76)	56
Contributions receivable, net	4,628	(5,578)
Due from the University of Louisville Real Estate Foundation, Inc.	4,051	3,436
Prepaid expenses and other assets	(76)	(160)
Accounts payable	292	158
Funds held in trust for others	339	(392)
Other liabilities	607	(909)
Due to the University of Louisville	910	(479)
Net cash used in operating activities	(27,388)	(15,320)
Investing activities		
Purchases of investments	(181,257)	(265,951)
Proceeds from sales of investments	198,282	271,886
Purchases of capital assets	(65)	(76)
Net cash provided by investing activities	16,960	5,859
Financing activities		
Contributions restricted for long-term investment	13,085	6,467
Payments to annuitants	(804)	(719)
Payments on bonds and notes payable	(984)	(1,249)
Net cash provided by financing activities	11,297	4,499
NET INCREASE (DECREASE) IN CASH	869	(4,962)
Cash, beginning of year	3,311	8,273
Cash, end of year	$ 4,180	$ 3,311
Supplemental cash flow information		
Cash paid for interest	$ 1,703	$ 1,745

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - 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, 2023 and 2022, 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 in the joint venture 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, whose sole member is ULF. Its purpose is to identify and support commercially promising health science discoveries in the region.

MetaCyte Equity Holdings, LLC (MetaCyte Equity) is a limited liability company acquired in February 2008 whose sole member is ULF. 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, LLC (TNRP, LLC) is a limited liability company formed in November 2020, whose sole member is ULF. 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 a discretely presented component in the financial statements of the University.

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.

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 or that include a stipulation that assets provided by retained in perpetuity while permitting the Foundation to use all or part of the investment return on these assets for specified or unspecified purposes.

Cash

At June 30, 2023 and 2022, the Foundation's cash accounts exceeded federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes that the Foundation is not exposed to any significant credit risk on cash.

Investments and Investment Return

Investments are recorded at fair value. Investment return includes interest and dividends and realized and unrealized appreciation (depreciation). Investment expenses, such as custodial fees, investment advisory fees and direct internal investment expenses involving the direct conduct or direct supervision of the strategic and tactical activities involved in generating investment return, are netted against investment return in the accompanying consolidated statements of activities. 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 Foundation includes, as a part of its portfolio, investments that are restricted by donors for use in the future activities of the University. 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, and limited partnerships, are recorded at net asset value (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.

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, as noted above, ASC 820 defines a three-level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs utilize quoted market prices in active markets for identical assets or liabilities that ULF has the ability to access.

Level 2 - Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 - Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, since there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Investment in Joint Venture

ULF, through ULDC, holds a 51% 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), 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.

As required by U.S. GAAP, 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 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, 2023 and 2022, the Foundation's loss in excess of its investment was approximately ($200,000) and $(607,000), 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 the date of receipt from donors. The Foundation capitalizes assets with a value greater than $5,000. Depreciation on capital assets is charged to expense using the straight-line method based on their estimated useful lives.

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

Buildings	40 years
Furniture and fixtures	3 to 15 years
Other plant assets	3 to 25 years

The Foundation has elected to capitalize collections that include art, rare books, photographs, letters, journals, manuscripts, and musical instruments. These items are capitalized at cost or, if a gift, at the fair market value on the date of the gift.

Long-Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flow expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value, and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. There was no impairment loss recognized during the years ended June 30, 2023 and 2022.

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 received 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, as appropriate. 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.

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 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. The Foundation records income for the estimated fair value of in-kind donations in the period they are received and records as assets or as part of the program or supporting services expense upon use on its consolidated financial statements. The Foundation received approximately $853,000 and $405,000 of in-kind gifts for the years ended June 30, 2023 and 2022, respectively. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions and were immediately contributed to the University.

Contributed library materials, vehicles, art and other educational equipment and supplies were utilized in program services. In valuing those items, the Foundation utilizes third party valuation specialists to estimate fair value that is generally performed on the basis of recent comparable sale prices in the applicable market.

Rental Revenue and Deferred Rent

Rental revenue is recognized over the terms of each tenant's lease agreement on a straight-line basis. Certain of TNRP's lease agreements are structured to include scheduled and specific rent increases over the lease term. The amount by which straight-line rental revenue exceeds minimum rents collected in accordance with the lease agreements is included in deferred rent receivables. Accrued income from these leases reflected as deferred rent, which is included in accounts receivable, net on the consolidated statements of financial position, was approximately $3.2 million and $3.3 million as of June 30, 2023 and 2022, respectively, respectively.

Total revenues do not include sales tax because the Foundation is a pass-through conduit for collecting and remitting sales, use and other similar taxes.

Tax Status

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), except for income taxes pertaining to unrelated business income. Under U.S. GAAP, the tax effects from uncertain tax positions are to be recognized in the consolidated financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a tax authority. Certain of ULF's affiliates are single-member limited liability companies, which are considered disregarded entities for tax purposes.

The Foundation completed an analysis of its uncertain tax positions in accordance with applicable accounting guidance and determined there are no amounts to be recognized on the consolidated financial statements at June 30, 2023 or 2022.

NOTE 2 - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

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 as of June 30 (in thousands):

	2023	2022
Financial assets at year end:		
Cash	$ 4,180	$ 3,311
Accounts receivable, net	4,489	4,413
Other receivables, net	1,000	1,000
Contributions receivable, net	13,112	17,464
Due from the University of Louisville Real Estate Foundation, Inc.	4,566	8,617
Investments	911,844	878,527
Funds held in trust by others	65,903	63,360
Total financial assets	1,005,094	976,692
Less amounts not available to be used within one year:		
Endowments with donor restrictions, net of current year spending	(616,253)	(596,053)
Quasi-endowments established by the board, net of current year spending appropriations	(199,066)	(195,744)
Funds held in trust by others	(61,188)	(63,360)
Contributions receivable not due within one year, net	(5,655)	(10,957)
	(882,162)	(866,114)
Total financial assets available to meet general expenditures over the next twelve months	$ 122,932	$ 110,578

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, if necessary.

NOTE 3 - NET ASSETS

Net assets with donor restrictions consisted of the following at June 30 (in thousands):

	2023	2022
Perpetual in nature	$ 442,462	$ 430,511
Purpose or time restricted		
Instruction	22,326	25,580
Research	150,479	129,332
Academic support	119,830	112,288
Student services and financial aid	93,789	87,006
Institutional support	25,858	43,904
Other	13,510	17,973
Funds held in trust by others	65,903	63,361
	$ 934,157	$ 909,955

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or other events specified by the donor consisted of the following for the year ended June 30 (in thousands):

	2023	2022
Instruction	$ 2,003	$ 1,677
Research	24,101	18,752
Academic support	12,348	10,467
Student services and financial aid	9,173	8,898
Institutional support	1,822	1,790
Other	16,941	16,424
	$ 66,388	$ 58,008

Net assets without donor restrictions is comprised of undesignated and board-designated amounts for the following purposes at June 30 (in thousands):

	2023	2022
Undesignated	$ 24,474	$ 24,035
Board-designated		
Research	10,627	10,234
Student services and financial aid	3,991	3,607
Institutional support	21,492	21,148
Public service	271	263
	$ 60,855	$ 59,287

NOTE 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 $5 million and $4.1 million as of June 30, 2023 and 2022, 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.

NOTE 5 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable are discounted using rates on risk-free obligations ranging from 0.2% to 4.5% for both 2023 and 2022. Contributions receivable, are due to be collected as follows as of June 30 (in thousands):

	2023	2022
Less than one year	$ 7,457	$ 6,507
One to five years	13,936	17,785
Greater than five years	692	1,151
	22,085	25,443
Allowance for doubtful accounts	(8,148)	(6,996)
Unamortized discount	(825)	(983)
Contributions receivable, net	$ 13,112	$ 17,464

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. The fair market value of these conditional gifts is as follows as of June 30 (in thousands):

	2023	2022
Bequests	$ 309,807	$ 280,902
Other	47,117	32,852
Total	$ 356,924	$ 313,754

NOTE 6 - 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.

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 (in thousands):

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ –	$ 651,434	$ 651,434
Board-designated endowment funds	36,381	173,129	209,510
	$ 36,381	$ 824,563	$ 860,944

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ –	$ 630,374	$ 630,374
Board-designated endowment funds	35,510	170,066	205,576
	$ 35,510	$ 800,440	$ 835,950

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 35,510	$ 800,440	$ 835,950
Investment return, net	1,678	37,858	39,536
Contributions	232	12,853	13,085
Appropriations	(693)	(28,504)	(29,197)
Other changes/transfers	(346)	1,916	1,570
Endowment net assets, end of year	$ 36,381	$ 824,563	$ 860,944

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 36,987	$ 826,461	$ 863,448
Investment return, net	(448)	(11,019)	(11,467)
Contributions	-	6,467	6,467
Appropriations	(786)	(24,352)	(25,138)
Other changes/transfers	(243)	2,883	2,640
Endowment net assets, end of year	$ 35,510	$ 800,440	$ 835,950

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 $210,000 and $325,000 at June 30, 2023 and 2022, 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 April 2022, the Board of the Foundation approved a 4.00% spending policy for the fiscal year 2022-2023 for support to the academic units and allocated 0.75% 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.

In January 2023, the Board of the Foundation approved a 4.00% spending policy for the fiscal year 2023-2024 for support to the academic units and allocated 0.75% 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 annual return (loss) for total endowment assets was 6.6% and (5)% in 2023 and 2022, respectively.

NOTE 7 - INVESTMENTS

Investments as of June 30 are as follows (in thousands):

	2023	2022
Cash equivalents	$ 26,833	$ 55,755
Alternative investments:		
Hedge funds	83,467	87,449
Investments in partnerships	482,246	478,467
Mutual funds:		
Equity	200,692	168,635
Fixed income	15,940	15,088
Domestic marketable equity securities	39,299	34,748
U.S. Treasury debt securities	63,367	38,385
Total investments	$ 911,844	$ 878,527

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.

A major portion of 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.

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 (in thousands):

	2023			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge funds[a]	$ 83,467	$ -	Various from monthly to illiquid	Various from 45 to 90 days
Investments in partnerships[b]	482,246	74,173	Various from monthly to illiquid	Various from 10 to 60 days

	2022			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge funds[a]	$ 87,449	$ -	Various from monthly to illiquid	Various from 30 to 90 days
Investments in partnerships[b]	478,467	92,727	Various from monthly to illiquid	Various from 30 to 180 days

[a] Hedge funds include investments in long and short primarily in U.S. common stocks, equity and fixed income instruments to profit from economic, political, and government driven events, and other strategies to diversify risks and reduce volatility. The fair values of hedge funds have been estimated using the net asset value per share of the investments.

[b] Investments in partnerships generally make investments, both global and domestic, directly into private companies. Capital can be used to fund new technologies, to expand working capital within an owned company, to make acquisitions or to strengthen a balance sheet, among other things. Funds with these strategies generally invest in diversified portfolios, including equities, fixed income securities and derivatives; these funds may use leverage, sell financial instruments short and/or invest in illiquid investments.

The fair value of investments is based on available information and does not necessarily represent amounts that might ultimately be realized, which depend on changing circumstances and cannot be reasonably determined until the investments are liquidated. The fair value may differ significantly from the values which would have been used had a ready market for the investments existed.

NOTE 8 - 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 (in thousands):

	2023		
	Level 1	Level 2	Total
Cash equivalents	$ 26,833	$ -	$ 26,833
Mutual funds:			
Equity	200,692	–	200,692
Fixed income	15,940	–	15,940
Domestic marketable equity securities	39,299	–	39,299
U.S. Treasury debt securities	63,367	–	63,367
Funds held in trust by others	–	65,903	65,903
	$ 346,131	$ 65,903	412,034
Investments at NAV:			
Hedge funds			83,467
Investments in partnerships			482,246
Total assets held at fair value			$ 977,747

	2022		
	Level 1	Level 2	Total
Cash equivalents	$ 55,755	$ -	$ 55,755
Mutual funds:			
Equity	168,635	–	168,635
Fixed income	15,088	–	15,088
Domestic marketable equity securities	34,748	–	34,748
U.S. Treasury debt securities	38,385	–	38,385
Funds held in trust by others	–	63,360	63,360
	$ 312,611	$ 63,360	375,971
Investments at NAV:			
Hedge funds			87,449
Investments in partnerships			478,467
Total assets held at fair value			$ 941,887

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, 2023.

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 equity and fixed income mutual funds, along with domestic equity securities and U.S. Treasury securities, which are valued based on quoted market prices.

Funds Held in Trust by Others

Fair value is determined at the fair market values of the underlying marketable debt and equity securities in the beneficial trusts at June 30, 2023 and 2022. 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.

NOTE 9 - 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 $29 million and $27 million as of June 30, 2023 and 2022, respectively.

The Foundation's portion of the market value of the remaining trusts was approximately $32 million as of June 30, 2023 and 2022. These funds are invested in various equities and income-producing assets. For the years ended June 30, 2023 and 2022, the Foundation recorded income (losses) of $5.4 million and $(12.9) 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.

NOTE 10 - CAPITAL ASSETS, NET

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

	2023	2022
Land	$ 5,334	$ 5,483
Buildings	37,875	37,875
Other plant assets	22,155	22,263
	65,364	65,621
Accumulated depreciation	(19,237)	(17,694)
Construction in process	1,036	988
Total capital assets, net	$ 47,163	$ 48,915

Depreciation expense for the years ended June 30, 2023 and 2022, was approximately $1.6 million.

NOTE 11 - 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, 2023 and 2022, the Foundation held approximately $3.5 million and $3.4 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, 2023 and 2022, the Foundation held approximately $10.6 million and $10.4 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, 2023 and 2022, the Foundation held approximately $270,000, 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.

NOTE 12 - BONDS AND NOTES PAYABLE

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

	2023	2022
Bonds payable	$ 30,820	$ 31,705
Term note payable	-	99
Total bonds and notes payable	30,820	31,804
Less bond issuance costs	(279)	(300)
Bonds and notes payable, net	$ 30,541	$ 31,504

Bonds Payable

In August 2013, the Foundation issued $37.5 million of University of Louisville Foundation, Inc. Taxable Fixed Rate Bonds Series 2013 (2013 bonds). Principal payments of $920,000 to $2.5 million are due annually through maturity, and interest is due semiannually at fixed rates from 4.2% to 5.6%. Final maturity on the 2013 bonds is March 1, 2043.

Term Note Payable

In January 2018, the Foundation issued a $1.9 million note payable. Amounts outstanding under the note bear a 3.23% fixed interest rate. The note matured in January 2023.

Principal payments on the above obligations due in the next five years and thereafter as of June 30, 2023 are as follows (in thousands):

2024	$	920
2025		960
2026		1,000
2027		1,045
2028		1,095
Thereafter		25,800
	$	30,820

NOTE 13 - GUARANTEES

Loan

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One through September 1, 2028. As of June 30, 2023 and 2022, the amount under guarantee was $5.9 million and $6.3 million, respectively.

The Foundation has not made any payments on this guarantee to date.

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.

NOTE 14 - 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 $5 million and $4.9 million for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, the Foundation recorded approximately $2.1 million and $2.3 million, respectively, in revenues from the University and related affiliates, which is included in rental revenues and other revenues on the consolidated statements of activities and changes in net assets.

NOTE 15 - 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, 2023 and 2022, the net receivable from ULREF is $4.6 million and $8.6 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, 2023 and 2022. See Note 6 for further information regarding the endowment.

NOTE 16 - LEASING ACTIVITIES

TNRP leases space to tenants under noncancelable operating leases. As of June 30, 2023 and 2022, TNRP had leases with three tenants. These leases expire in 1 to 8 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):

2024	$ 3,382
2025	2,300
2026	2,059
2027	2,120
2028	2,183
Thereafter	7,350
	$ 19,394

NOTE 17 - 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 as follows:

Expenses	Method of Allocation
Salaries	Time and effort
Utilities	Square footage
General and administrative	Time and effort
Professional services	Time and effort
Repairs and maintenance	Time and effort

Expenses by functional classification for the years ended June 30, 2023 and 2022, were as follows (in thousands):

	2023				
	Program Services	Real Estate Operations	Management and General	Fundraising	Total
Contributions and allocations to University of Louisville departments	$ 52,301	$ (21)	$ –	$ 5,000	$ 57,280
Contributions and allocations to UofL Health - Louisville, LLC	10,594	–	–	–	10,594
Salaries	–	2,153	1,103	–	3,256
Utilities	–	716	22	–	738
General and administrative	–	1,043	449	–	1,492
Professional services	–	324	231	–	555
Repairs and maintenance	–	1,646	88	–	1,734
Depreciation and amortization	–	1,908	293	–	2,201
Interest expense	–	–	1,692	–	1,692
Other expenses	–	(5)	1,019	–	1,014
Total expenses	62,895	7,764	4,897	5,000	80,556
Provision for uncollectible contributions receivable	–	–	–	1,725	1,725
Actuarial gain on annuity and unitrust obligations	(117)	–	–	–	(117)
Total expenses and losses	$ 62,778	$ 7,764	$ 4,897	$ 6,725	$ 82,164

	2022				
	Program Services	Real Estate Operations	Management and General	Fundraising	Total
Contributions and allocations to University of Louisville departments	$ 40,612	$ (45)	$ –	$ 4,938	$ 45,505
Contributions and allocations to UofL Health - Louisville, LLC	10,656	–	–	–	10,656
Salaries	–	1,846	946	–	2,792
Utilities	–	678	22	–	700
General and administrative	–	949	386	–	1,335
Professional services	–	330	215	–	545
Repairs and maintenance	–	1,562	5	–	1,567
Depreciation and amortization	–	2,170	54	–	2,224
Interest expense	–	–	1,745	–	1,745
Other expenses	–	(65)	722	–	657
Total expenses	51,268	7,425	4,095	4,938	67,726
Provision for uncollectible contributions receivable	–	–	–	2,262	2,262
Actuarial gain on annuity and unitrust obligations	(1,122)	–	–	–	(1,122)
Total expenses and losses	$ 50,146	$ 7,425	$ 4,095	$ 7,200	$ 68,866

NOTE 18 - 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.

NOTE 19 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through September 22, 2023, which is the date the consolidated financial statements were issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure on the consolidated financial statements.