

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**

**A Component Unit of the Commonwealth of Kentucky**

**Accountants' Report and Financial Statements  
June 30, 2008 and 2007**

**UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
University of Louisville and  
Affiliated Corporations  
Louisville, Kentucky

We have audited the accompanying basic consolidated financial statements of the University of Louisville and Affiliated Corporations (University) and its aggregate discretely presented component units, collectively, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these consolidated financial statements based on our audits. We did not audit the financial statements of the Louisville Medical Center Development Corporation, which is both a discretely presented component unit and which statements represent 2%, 1% and 1%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units for the year ended June 30, 2008. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the report of the other accountants.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The financial statements of the two component units comprising the aggregate discretely presented component units, the University of Louisville Foundation, Inc. and Affiliates and the Louisville Medical Center Development Corporation, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other accountants, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University and of its aggregate discretely presented component units as of June 30, 2008 and 2007, and the respective changes in financial position and its cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, in 2008, the University changed its method of accounting for its defined benefit postemployment health plan by adopting the provisions of GASB 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

October 3, 2008

# UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

## A Component Unit of the Commonwealth of Kentucky

### Management's Discussion and Analysis (Unaudited)

#### Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville and Affiliated Corporations (the University) for the years ended June 30, 2008, 2007 and 2006. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association, Inc. (Association). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a state supported research university located in Kentucky's largest metropolitan area. It was a municipally supported public institution for many decades prior to joining the state university system in 1970. The University has three campuses with an enrollment of 21,689 students and 6,138 faculty and staff members. The 287-acre Belknap Campus is three miles from downtown Louisville and houses eight of the University's twelve colleges and schools. The Health Sciences Center is situated in downtown Louisville's medical complex and houses the University's health related programs and the University of Louisville Hospital (Hospital). On the 243-acre Shelby Campus located in eastern Jefferson County are the National Crime Prevention Institute and the Division of Distance and Continuing Education. In recent years, the University has also offered expanded campus courses at both off-site and international locations.

The University offers graduate, professional, baccalaureate, and associate degrees, as well as certificates, in 193 degree programs through 12 schools and colleges. In the 2007-2008, 2006-2007 and 2005-2006 academic years, the University conferred 4,324, 4,373 and 4,289 degrees, respectively, consisting of:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Baccalaureate	2,298	2,328	2,253
Masters/Specialist	1,369	1,395	1,368
First Professional	343	346	327
Certificate	31	38	68
Doctorate	151	135	144
Associate	19	22	51
Post Baccalaureate	109	105	78
Post Masters Certificate	4	4	-

In an effort to improve Kentucky's postsecondary education system by the year 2020, the Kentucky Postsecondary Education Improvement Act of 1997 was passed. Also known as House Bill 1, this legislation established a goal for the University to become a nationally recognized metropolitan teaching and research university.

The Challenge for Excellence: Full Speed Ahead (Challenge) has served as the University's strategic plan to achieve national preeminence as a metropolitan teaching and research university. The Challenge focused on promoting programmatic areas of distinction and opportunities for excellence within the current scope of academic programs at the University and remained consistent with the University's commitment to advancing the intellectual, social and economic development of its diverse communities and citizens.

With the Challenge for Excellence completed, the University embarked on the development of a new strategic plan through the year 2020. The strategic plan will be firmly grounded in the mission and values of the University and responsive to the appropriate needs of the greater community, the state, the nation and beyond. It articulates strategies to ensure that the University becomes the university of first choice for students and recognized among the nation's foremost public metropolitan research universities with a faculty of distinction who have outstanding national and international reputations in research and other scholarly activities.

The University has made enormous strides in its efforts to become a nationally recognized metropolitan teaching and research university since the Commonwealth of Kentucky (Commonwealth) passed legislation in 1997 mandating postsecondary education reform. The University reinvested in and reorganized undergraduate education including the honors program, raised the average ACT scores of entering freshmen to 24.3 in the Fall of 2007, and the number of endowed chairs to 131 for fiscal year 2008. During the Fall of 2005, the University received a \$22.0 million grant from the National Institute of Allergy and Infectious Diseases to build a 37,000 square foot Level 3 bio-safety lab on its Shelby Campus with an estimated total cost of \$34.6 million including local match and equipment costs. The lab is geared to developing vaccines to fight bioterrorism and emerging infectious diseases. The \$16.1 million and 86,000 square feet Yum! Center, which officially opened in August of 2007, houses training facilities and offices for the men's basketball, women's volleyball and women's lacrosse teams.

The University is dedicated to education reform and strives to achieve the goals established by the Commonwealth in an effort to improve the quality of life for the citizens of our metropolitan area and the Commonwealth.

### **Financial Highlights**

- The University's financial position remains strong at June 30, 2008, with assets of \$995.5 million and liabilities of \$284.6 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, were \$710.9 million as of June 30, 2008.
- Gross tuition and fees were \$186.6 million for the year ended June 30, 2008, an increase of \$22.3 million, or 14% compared to the \$164.3 million reported in the previous year. Approved tuition rate increases for 2007-08 generated approximately \$12.7 million in additional tuition revenues in addition to increased enrollments and other fee increases, which contributed an additional \$9.6 million.
- Total general fund appropriations from the Commonwealth were \$169.5 million for the year. Appropriations and certain other revenues and expenses are reported under Government Accounting Standards Board (GASB) Statement No. 35 as nonoperating revenues.
- Operating revenues amounted to \$565.5 million and operating expenses were \$740.3 million resulting in a net operating loss of \$174.8 million. When adjusted for \$169.5 million in state appropriations and \$82.1 million in other net nonoperating revenues, net assets of the University increased by \$76.8 million for the year ended June 30, 2008.

### **Using the Financial Statements**

The University's financial report includes three financial statements: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These financial statements are prepared in accordance with GASB principles.

Significant presentations within the financial statements include:

- Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income (loss) are considered nonoperating.
- Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses.
- Capital assets are recorded net of the effects of accumulated depreciation. Depreciation is recognized on the straight-line basis, over the estimated useful lives of the capital assets, as an operating expense.

### Statements of Net Assets

The statements of net assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Net assets, the difference between total assets and total liabilities, provide a snapshot of the current financial condition of the University at the end of a fiscal year. The change in net assets indicates whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less accumulated depreciation. The University's assets, liabilities and net assets at June 30, 2008, 2007 and 2006 are summarized below:

**Condensed Statements of Net Assets**  
**June 30, 2008, 2007 and 2006**  
(In Thousands)

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008 - 2007 Change</b>	<b>2007 - 2006 Change</b>
<b>ASSETS</b>					
Current assets	\$ 188,112	\$ 129,313	\$ 126,902	\$ 58,799	\$ 2,411
Long-term investments	82,760	96,666	90,844	(13,906)	5,822
Capital assets, net	666,679	588,780	553,302	77,899	35,478
Other	57,932	94,839	53,404	(36,907)	41,435
Total assets	<u>995,483</u>	<u>909,598</u>	<u>824,452</u>	<u>85,885</u>	<u>85,146</u>
<b>LIABILITIES</b>					
Current liabilities	118,169	104,183	109,250	13,986	(5,067)
Noncurrent liabilities	<u>166,388</u>	<u>171,267</u>	<u>150,553</u>	<u>(4,879)</u>	<u>20,714</u>
Total liabilities	<u>284,557</u>	<u>275,450</u>	<u>259,803</u>	<u>9,107</u>	<u>15,647</u>
<b>NET ASSETS</b>					
Invested in capital assets, net	536,358	461,007	422,666	75,351	38,341
Restricted - nonexpendable	1,293	1,150	1,051	143	99
Restricted - expendable	76,093	75,351	54,311	742	21,040
Unrestricted	97,182	96,640	86,621	542	10,019
Total net assets	<u>\$ 710,926</u>	<u>\$ 634,148</u>	<u>\$ 564,649</u>	<u>\$ 76,778</u>	<u>\$ 69,499</u>

## **Assets**

As of June 30, 2008, total assets of \$995.5 million exceed liabilities of \$284.6 million by a ratio of 3:1, consistent with the ratio as of June 30, 2007. Current assets amounting to \$188.1 million consist primarily of cash of \$47.3 million, short-term investments of \$22.9 million, and loans, accounts and contributions receivable of \$91.8 million.

Current assets increased \$58.8 million, reflecting increases in net loans accounts and contributions receivable of \$36.9 million, cash and cash equivalents of \$14.6 million and due from University of Louisville Foundation, Inc. (Foundation) of \$8.7 million. Cash increased due to the sale of short-term and other long-term investments totaling \$15.2 million, additional tuition and fees of \$11.3 million and for an advance totaling \$4.0 million under a royalty agreement. This agreement is a lease of the excess capacity of the University's Educational Broadband Service (EBS) Station WBX203. Partially offsetting this, cash decreased \$16.7 million for capital projects deficit balances netted in cash and cash equivalents.

Capital assets, net of accumulated depreciation amount to \$666.7 million or 67% of total assets. Other noncurrent long-term investments total \$82.8 million and loans, accounts and contributions receivable were \$36.3 million.

Noncurrent assets increased \$27.1 million including increases of \$77.9 million in capital assets, net and \$13.4 million in loans, accounts and contributions receivable, net partially offset by decreases in restricted cash and cash equivalents of \$45.7 million and other long-term investments of \$14.6 million. Capital asset increases include \$89.5 million of construction in progress, \$12.4 million of equipment and \$8.7 million of library materials partially offset by \$35.9 million of depreciation expense. The increase in accounts receivable was the result of the receipt by the Association of numerous new pledges related to capital projects. Restricted cash decreased due to progress payments to contractors. The decrease in investments was required to meet the University's cash needs.

## **Liabilities**

As of June 30, 2008, the University's \$284.6 million in total liabilities consist of \$118.2 million in current liabilities and \$166.4 million in noncurrent liabilities. Accounts payable and accrued liabilities of \$59.8 million and deferred revenue of \$42.0 million comprise 86% of total current liabilities. Accounts payable and accrued liabilities increased \$10.8 million due mainly to the increase in amounts owed related to salaries and benefits of \$4.9 million, including the first year of recognition of a liability for other post employment benefits of \$2.8 million. Additionally, amounts owed related to construction increased \$4.3 million, related mainly to the Center for Predictive Medicine. Current deferred revenue increased \$3.6 million mainly due to an increase of \$2.2 million related to deferred football season ticket revenue, as the number of home games increased this year by two. Additionally, there was an increase in deferred receipts from grants and contracts of \$0.9 million.

Noncurrent liabilities consist chiefly of \$122.7 million in bonds and notes payable. This represents the portion of bonds, notes, and leases payable due in excess of one year. The \$4.9 million decrease in noncurrent liabilities relates primarily to the \$13.1 million decrease in bonds and notes payable, due to scheduled maturities. This decrease was partially offset by an increase to deferred revenue of \$4.2 million and other long-term liabilities of \$3.0 million. The increase to deferred revenue relates mainly to the advance of funding under the royalty agreement totaling \$3.4 million. Other long-term liabilities increased \$3.0 million due mainly to the additional liability for other post employment benefits.

## **Net Assets**

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2008 were \$710.9 million. A review of the University's statements of net assets at June 30, 2008 and 2007 reflects the University's prudent management of its financial resources as provided through appropriations from the Commonwealth, private donations transferred from the Foundation and research initiatives. Stability also prevails due to budgetary controls, maintaining and preserving existing assets and conservative utilization of debt.

The Statements of Revenue, Expenses and Changes in Net Assets detail the changes in net assets.

The University's total net assets are summarized into four major categories in accordance with GASB Statement No. 35 reporting requirements as follows:

### **Invested in capital assets, net of related debt - \$536.3 million**

The University's \$536.3 million in net capital assets represent land, buildings, equipment and depreciable library materials, net of accumulated depreciation and debt attributable to the acquisition, construction or improvement of those assets.

### **Restricted nonexpendable net assets - \$1.3 million**

Restricted nonexpendable net assets consist of those net assets that may not be spent due to externally imposed restrictions from external sources such as creditors, donors, laws or government regulations.

These net assets are permanent endowments owned by the University. The principal, as specified by donors, is invested in perpetuity and may not be spent. Permanent endowments donated for the benefit of the University are invested by the Foundation.

### **Restricted expendable net assets - \$76.1 million**

Restricted expendable net assets also represent net assets that are subject to externally imposed restrictions governing their use for a particular purpose or period of time. The University's most significant net assets in this category as of June 30, 2008 consist of expendable net assets restricted for capital projects of \$42.0 million, debt service of \$18.5 million, and institutional support of \$9.0 million. The restricted expendable net assets for institutional support relate primarily to the funds received under the agreement with the University Medical Center, Inc. The net assets remain restricted until a contract is completed or the restrictions are otherwise expired.

### **Unrestricted net assets - \$97.2 million**

Unrestricted net assets result primarily from net operating income in excess of expenses. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic programs, research initiatives, and capital projects.

## **Capital Assets**

Actual capital additions totaled \$114.0 million in 2008. Capital additions consisted mainly of \$89.5 million in additions to construction in progress, \$12.4 million in investments in equipment, including information technology and \$8.7 million investment in library materials. Construction in process at June 30, 2008 includes \$84.1 for the Clinical and Translational Research Building, \$23.1 million for the Center for Predictive Medicine and \$2.8 million for the Home of the Innocents Renovation.

## Prior year discussion

Current assets increased \$2.4 million, reflecting an increase in loans, accounts and contributions receivable, net of \$8.0 million. Partially offsetting this, deposit with bond trustee decreased \$4.2 million due to a decrease in the required reserve. Noncurrent assets increased \$82.7 million including \$41.1 million in restricted cash and cash equivalents, \$35.5 million of capital assets, net and \$8.4 million of investments held with the Foundation. Cash increased for the receipt of \$39.2 million of state funding to construct a Clinical and Translational Research Building and for the sale of \$41.0 million of general receipts bonds offset by progress payments to construction contractors. Foundation investments increased for the investment by the Research Foundation (School of Dentistry) of \$4.0 million and for increases in market value.

Current deferred revenue decreased \$6.6 million, mainly due to a decrease in advances from Jewish Hospital for the construction of a Cardiovascular Innovation Institute of \$4.9 million and for a decrease in deferred receipts from grants and contracts of \$3.8 million, partially offset by an increase in the deferral for summer tuition of \$1.5 million. The \$20.7 million increase in noncurrent liabilities relates primarily to the \$21.6 million increase in bonds and notes payable, which resulted from the issuance of \$41.0 million of Series A General Receipts Bonds and \$4.6 million of additional capital leases offset by decreases related to \$19.1 million in scheduled principal payments and the refunding of \$10.5 million of Kentucky ALCo Project Notes, Series A-2.

Net assets increased \$69.5 million as compared to June 30, 2006. The increase reflects the University's prudent management of its financial resources, continuing investment in plant and conservative utilization of debt.

## Statements of Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present the University's results of operations. Condensed statements of the University's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007 and 2006, are summarized below:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**Years ended June 30, 2008, 2007 and 2006**  
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008 - 2007</u> <u>Change</u>	<u>2007 - 2006</u> <u>Change</u>
<b>OPERATING REVENUES</b>					
Student tuition and fees, net	\$ 142,222	\$ 124,809	\$ 110,356	\$ 17,413	\$ 14,453
Clinical services and practice plan	174,885	157,653	141,767	17,232	15,886
Grants and contracts	175,002	157,960	149,874	17,042	8,086
Facilities and administrative cost recoveries	21,204	20,575	18,623	629	1,952
Other	52,189	47,242	43,409	4,947	3,833
Total operating revenues	<u>565,502</u>	<u>508,239</u>	<u>464,029</u>	<u>57,263</u>	<u>44,210</u>
<b>OPERATING EXPENSES</b>					
Depreciation	35,907	34,404	31,387	1,503	3,017
Other	704,354	648,515	597,262	55,839	51,253
Total operating expenses	<u>740,261</u>	<u>682,919</u>	<u>628,649</u>	<u>57,342</u>	<u>54,270</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State appropriations	169,484	170,279	166,922	(795)	3,357
Other nonoperating revenues	82,053	73,900	29,953	8,153	43,947
Total nonoperating revenues	<u>251,537</u>	<u>244,179</u>	<u>196,875</u>	<u>7,358</u>	<u>47,304</u>
Increase in net assets	76,778	69,499	32,255	7,279	37,244
Net assets at beginning of year	634,148	564,649	532,394	69,499	32,255
Net assets at end of year	<u>\$ 710,926</u>	<u>\$ 634,148</u>	<u>\$ 564,649</u>	<u>\$ 76,778</u>	<u>\$ 69,499</u>

## Operating Revenues

Tuition and state appropriations provide the chief sources of support for the University's academic programs. Revenues from tuition, clinical services, and grants and contracts are classified as operating revenues as defined by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Other revenue sources, such as state appropriations and investment income are considered nonoperating revenues.

Student tuition and fees, net of allowances for scholarships and fellowships of \$44.4 million and \$39.5 million, were \$142.2 million and \$124.8 million, or 25% of total operating revenues for each of the years ended June 30, 2008 and 2007. Gross tuition and fees revenues increased \$22.3 million, or 14% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing \$12.7 million and increased enrollments and other fee increases providing \$9.6 million. The increase was offset by the increase in tuition discount of \$4.9 million, due mainly to increased scholarships, which are directly related to tuition rates.

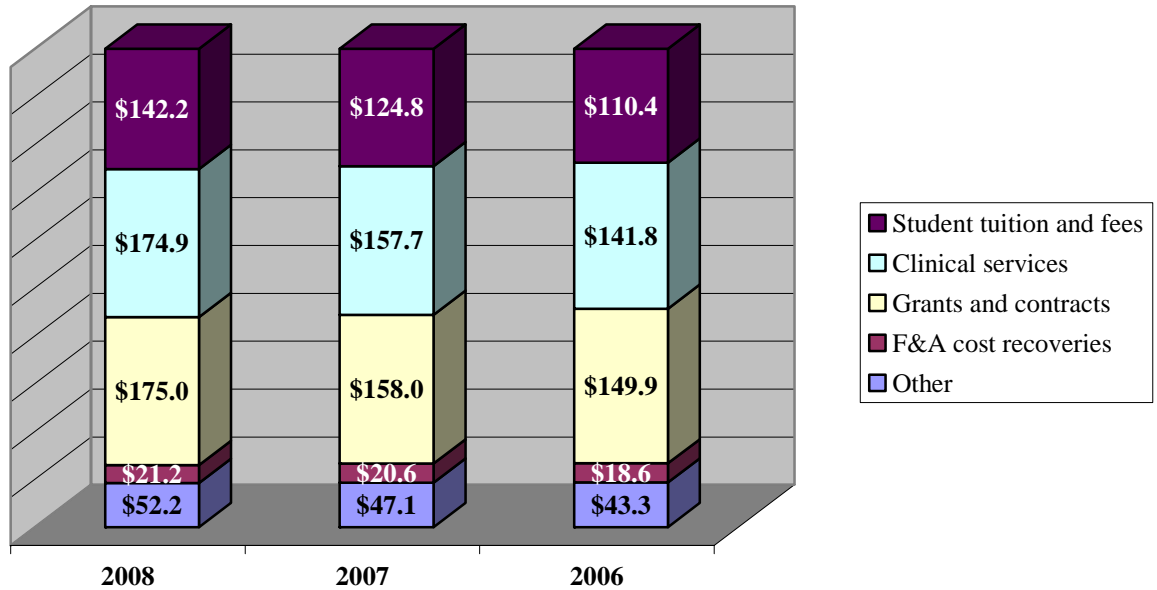
Clinical services and practice plan revenue amounted to \$174.9 million and \$157.7 million, or 31% of total operating revenues for each of the years ended June 30, 2008 and 2007. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Clinical services and practice plans revenue increased by \$17.2 million primarily due to increased revenue from the operation of University clinics and an increase in payment from the Passport and Safety Net programs.

Revenues from grants and contracts were \$175.0 million and \$158.0 million in 2008 and 2007, respectively. The increase of \$17.0 million is mainly a result of increased federal grants and contracts of \$14.7 million and state and local grants and contracts of \$2.7 million. Increased revenue includes \$10.0 million from the Health Resources and Services Administration within the Department of Health and Human Services for the construction of a Clinical and Translational Research Building.

The University receives revenues for research and contracts from government and private sources, which normally provide for the recovery of direct and indirect costs. Facilities and administrative cost recoveries for the years ended June 30, 2008 and 2007 were \$21.2 million and \$20.6 million, respectively. These funds assist the University with its vision to become first choice for students and be recognized among the nation's foremost public metropolitan research universities with a faculty of distinction who have outstanding national and international reputations in research and other scholarly activities.

The following is a graphic illustration of revenues by source that are used to fund the University's operating activities for the years ended June 30, 2008, 2007 and 2006 (in millions).

**Operating Revenues**  
**Years ended June 30, 2008, 2007, and 2006**



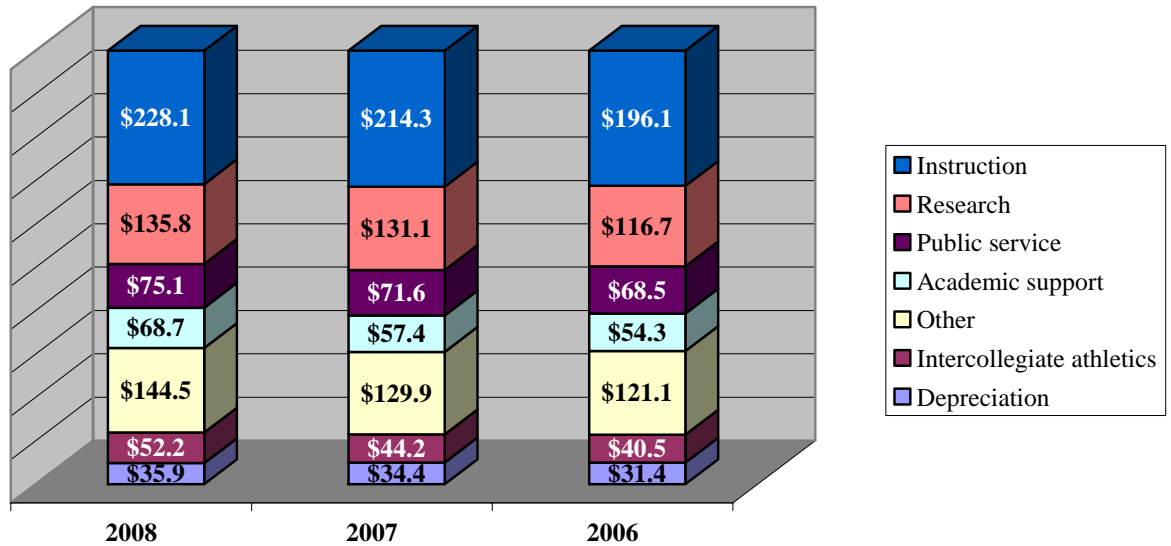
**Operating Expenses**

Operating expenses amounted to \$740.3 million and \$682.9 million and exceeded operating revenues by \$174.8 million and \$174.7 million for the years ended June 30, 2008 and 2007, respectively. When offset by total nonoperating revenues of \$251.6 million and \$244.2 million, total net assets for the year increased by \$76.8 million and \$69.5 million for the years ended June 30, 2008 and 2007, respectively.

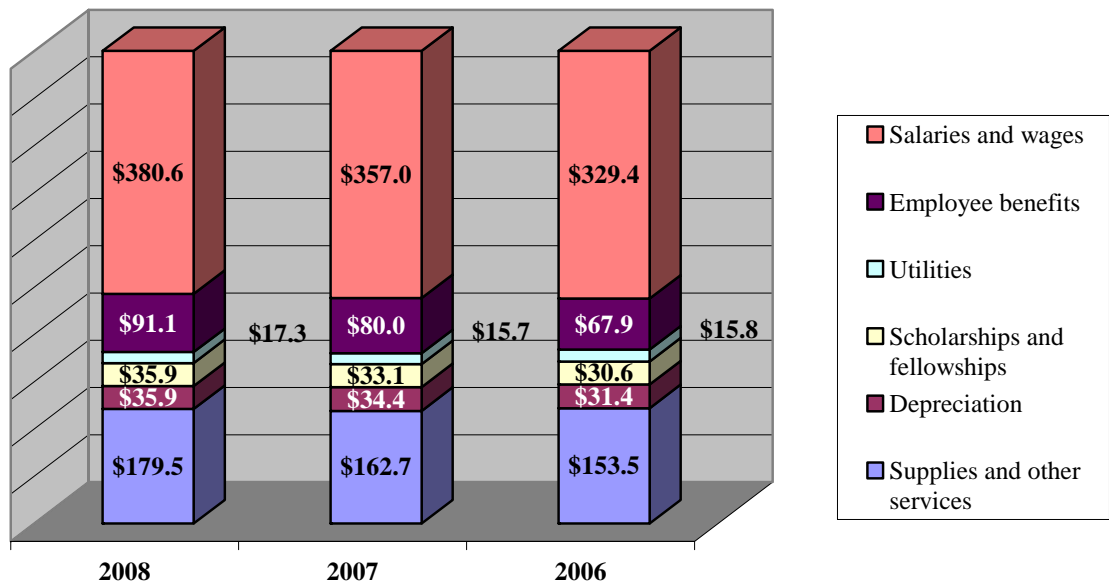
Operating expenses increased by \$57.4 million or 8% over the amount reported in the previous year. This increase relates mainly to instruction of \$13.8 million and academic support of \$11.3 million. The University continues to strive to achieve the goals established by “2020 Plan, Making it Happen”, a strategic plan that includes goals and a long-range financial plan.

On the following page are graphic illustrations of total expenses by functional and natural categories for the years ended June 30, 2008, 2007 and 2006 (in millions):

**Operating Expenses by Functional Class  
Years ended June 30, 2008, 2007, and 2006**



**Operating Expenses by Natural Classification  
Years ended June 30, 2008, 2007, and 2006**



The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits were \$471.7 million and \$437.0 million in 2008 and 2007, respectively.

## **Nonoperating Revenues (Expenses)**

General state appropriations amounting to \$169.5 million and \$170.3 million were the most significant nonoperating revenues for the years ended June 30, 2008 and 2007, respectively.

In total, nonoperating revenues increased \$7.4 million from the prior year. Gifts and capital gifts increased \$10.0 million and \$14.2 million respectively. The Association received numerous gifts and pledges related to capital projects. Alternately, capital appropriations and realized and unrealized loss/gain on investment decreased \$10.0 million and \$5.5 million respectively. The University recognized capital appropriation of \$29.2 million and \$39.2 million during fiscal years 2008 and 2007, respectively. The capital appropriations represent state appropriated funds to construct the Clinical and Translational Research Building.

### **Prior year discussion**

Gross tuition and fees revenues increased \$19.4 million, or 13% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing \$13.5 million and increased enrollments and other fee increases providing \$5.9 million. The increase was offset by the increase in tuition discount of \$5.0 million, due mainly to increased scholarships tied to the increase in tuition rates. Clinical services and practice plan revenue amounted to \$157.7 million and \$141.8 million, or 31% of total operating revenues for each of the years ended June 30, 2007 and 2006. Clinical services and practice plans revenue increased by \$15.9 million primarily due to increased revenue from the operation of University clinics. Revenues for research grants and contracts were \$158.0 million and \$149.9 million in 2007 and 2006, respectively. The increase of \$8.1 million is a result of increased federal grants and contracts of \$5.7 million and state and local grants and contracts of \$4.7 million offset by a decrease in nongovernmental grants and contracts of \$2.4 million.

Operating expenses increased by \$54.3 million or 9% over the amount reported in the previous year. This increase relates mainly to instruction of \$18.1 million and research of \$14.4 million and reflects the efforts of the University to reach the goals established in the Challenge.

In total, nonoperating revenues increased \$47.3 million from the prior year. Capital appropriations increased \$39.2 million for the receipt of state funds to construct the Clinical and Translational Research Building.

### **Statements of Cash Flows**

The statements of cash flows provide additional information about the University's financial results by reporting the major sources and uses of cash. The condensed statements of cash flows for the years ended June 30, 2008, 2007 and 2006 are summarized on the following page:

**Condensed Statements of Cash Flows**  
**Years ended June 30, 2008, 2007 and 2006**  
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008 - 2007</u> <u>Change</u>	<u>2007 - 2006</u> <u>Change</u>
Cash (used)/provided by:					
Operating activities	\$ (134,035)	\$ (152,198)	\$ (103,557)	\$ 18,163	\$ (48,641)
Noncapital financing activities	194,512	195,179	191,666	(667)	3,513
Capital and related financing activities	(117,041)	(9,580)	(64,252)	(107,461)	54,672
Investing activities	<u>25,495</u>	<u>5,430</u>	<u>(34,143)</u>	<u>20,065</u>	<u>39,573</u>
Net increase/(decrease) in cash and cash equivalents	(31,069)	38,831	(10,286)	(69,900)	49,117
Cash and cash equivalents, beginning of year	<u>91,602</u>	<u>52,771</u>	<u>63,057</u>	<u>38,831</u>	<u>(10,286)</u>
Cash and cash equivalents, end of year	<u>\$ 60,533</u>	<u>\$ 91,602</u>	<u>\$ 52,771</u>	<u>\$ (31,069)</u>	<u>\$ 38,831</u>

### Operating Activities

Cash used for operating activities decreased \$18.2 million due to increased receipts from clinical services and practice plans of \$28.6 million and grants and contracts of \$23.5 million. Clinical services and practice plan receipts increased approximately \$10.5 million related to collection of surplus revenue under the hospital affiliation agreement, of which \$9.5 million was due to the timing of receipt. The balance of the increase is attributed to the operation of the clinics. Grants and contracts increase and decrease based on the timing of the expenditures on the projects. Receipts related to student tuition and fees increased \$11.3 million, reflecting an increase in the tuition rate averaging 9.9% and increasing enrollment. Offsetting these increases, payments to suppliers increased \$15.2 million and payments to employees increased \$21.0 million.

### Financing Activities

Cash from noncapital financing activities decreased \$0.7 million primarily due to a decrease of \$1.0 million in cash transferred from related entities.

Cash used for capital and related financing activities increased \$107.5 million due mainly to a net increase of \$47.7 million in purchases of capital assets and for decreases in capital funding sources including \$41.0 million in proceeds from the issuance of long-term liabilities and \$39.2 million in capital appropriations. During the fiscal year ended June 30, 2007, funding was received from the state for the construction of a new Clinical and Translational Research Building and the University issued general receipts bonds payable totaling approximately \$41.0 million. Partially offsetting this, a decrease in principal paid on long-term liabilities of \$16.5 million resulted from the advance refunding during fiscal year 2007 of the Kentucky ALCo Project Notes Series A-2 totaling \$10.5 million.

### Investing Activities

Cash from investing activities increased \$20.1 million due mainly to a change in the net amount of investments purchased and sold, which was \$15.2 million sold for the fiscal year ended June 30, 2008 as compared to \$1.9 million purchased for the fiscal year ended June 30, 2007.

### Prior year discussion

For the fiscal year ended June 30, 2007, the University's cash and cash equivalents increased \$38.8 million due to cash provided by noncapital financing activities of \$195.2 million and investing

activities of \$5.4 million. Partially offsetting this was cash used for operating purposes of \$152.2 million, and for capital and related financing activities of \$9.6 million.

Cash used for operating activities increased \$48.6 million due to decreased receipts from grants and contracts of \$14.1 million and increased payments to suppliers of \$24.7 million. Payments to employees and payments for benefits increased \$25.9 million and \$8.2 million, respectively. Partially offsetting this, student tuition and fees increased \$16.0 million and clinical services and practice plan receipts increased \$6.3 million.

Cash from noncapital financing activities increased \$3.5 million primarily due to a \$3.4 million increase in cash from state appropriations.

Cash used for capital and related financing activities decreased \$54.6 million due mainly to a net increase of \$39.2 million in capital appropriations and for an increase of \$30.5 million in cash proceeds from the issuance of long-term liabilities.

Cash from investing activities increased \$39.6 million due mainly to a change in the net amount of investments purchased and sold, which was \$1.9 million purchased for the fiscal year ended June 30, 2007 as compared to \$39.7 million purchased for the fiscal year ended June 30, 2006.

### **Component Unit**

The Foundation is included as a discretely presented component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The majority of the Foundation's assets relate to investments held for the benefit of the University. Investments at June 30, 2008 were \$715.0 million, a decrease of \$85.4 million from the June 30, 2007 balance of \$800.4 million. The main reason for the decrease is due to the increase in restricted cash of \$75.2 million, due to the timing of movement between investment managers. Additionally, investments decreased due to the net realized and unrealized loss of \$20.3 million, which is due mainly to the downward trend in the markets.

The separate financial statements of the Foundation can be found at the following:

<http://www.louisville.edu/vpf/financialadm/statements.html>

### **Economic Factors that May Affect the Future**

As mandated by the 1997 House Bill 1 – Kentucky Postsecondary Education Improvement Act, the University is to become a premier, nationally recognized metropolitan research university. President Ramsey charged Executive Vice President and University Provost Shirley C. Willihnganz with the development of a new strategic plan after completing the Challenge. Through an inclusive process to include University constituents and community members at large, the Provost delivered “The 2020 Plan. Making It Happen” (Plan), a strategic plan that includes strategic goals and a long-range financial plan. This Plan builds the case for additional resources to fund new strategic initiatives through the year 2020.

The launch of the new Plan continues to be challenging. The University was told in December of 2007 to immediately implement a permanent 3 percent budget reduction in state appropriation. Then in April 2008, the Kentucky legislature enacted a comprehensive 2008-10 budget plan for the Commonwealth that included an additional 3 percent recurring cut in state funding for Kentucky colleges and universities. The University will not use these budget cuts as an excuse to step back from its mandate but instead will find other ways to continue the momentum and progress made with the Challenge.

Specifically, in the first year of the biennial budget, the University's base appropriation was reduced \$10 million. Also, the General Assembly moved the funding for the Metropolitan College initiative to the Cabinet for Economic Development. The University will work with the Cabinet Secretary to develop a Memorandum of Agreement to transfer these funds to the University, as fiscal agent on a quarterly basis.

In its quest for preeminence, the University will not depend solely on state support to fund its strategic plan. The cyclical "up and down" trend of state funding and the uncertainty of the general business cycle are important environmental factors to consider, but the ambiguity and unpredictability of these revenue flows are cause for concern.

Recent economic reports indicate that significantly increased state appropriations are unlikely in the near future. The Economic Revenue Report projected the state ended the fiscal year June 30, 2008 with a revenue shortfall. Additionally, the pension issue continues to be a major public policy issue for state and local governments in Kentucky. These indications and other economic trends highlight the importance that for the foreseeable future the University must be creative in:

- Finding ways to generate new revenue;
- Managing expenses;
- Turning non-performing and under-performing assets into productive, fully-performing assets;
- Intensifying fundraising;
- Recognizing the importance of clinical partnerships and income for education and research; and
- Looking to sources other than the state for moving forward on projects.

This financial report is designed to provide a general overview of the University's finances and to show the University's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Controller; University of Louisville; Louisville, KY 40292.

**University of Louisville and Affiliated Corporations**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statements of Net Assets**  
**As of June 30, 2008 and 2007**  
**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 47,346	\$ 32,697
Deposit with bond trustee	11,040	10,769
Short-term investments	22,852	24,363
Loans, accounts and contributions receivable, net	91,754	54,849
Due from University of Louisville Foundation, Inc.	8,681	-
Inventories	1,345	1,541
Other assets	5,094	5,094
Total current assets	<u>188,112</u>	<u>129,313</u>
Noncurrent Assets		
Restricted cash and cash equivalents	13,187	58,905
Deposit with bond trustee	5,879	10,791
Loans, accounts and contributions receivable, net	36,305	22,876
Due from University of Louisville Foundation, Inc.	454	-
Investments held with University of Louisville Foundation, Inc.	43,694	42,952
Other long-term investments	39,066	53,714
Other long-term assets	2,107	2,267
Capital assets, net	666,679	588,780
Total noncurrent assets	<u>807,371</u>	<u>780,285</u>
Total assets	<u>995,483</u>	<u>909,598</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	59,832	49,044
Deferred compensation and wages payable	1,658	2,264
Due to University of Louisville Foundation, Inc.	-	1,435
Deferred revenue	42,016	38,459
Note payable to University of Louisville Foundation, Inc.	500	500
Bonds and notes payable	14,163	12,481
Total current liabilities	<u>118,169</u>	<u>104,183</u>
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	2,705	3,205
Deferred compensation and wages payable	7,166	5,533
Deposits	7,080	6,761
Deferred revenue	5,685	1,496
Amounts due to federal government for student loan programs	16,692	17,080
Other long-term liabilities	4,008	1,000
Bonds and notes payable	122,736	135,876
Total noncurrent liabilities	<u>166,388</u>	<u>171,267</u>
Total liabilities	<u>284,557</u>	<u>275,450</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	536,358	461,007
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,293	1,150
Expendable		
Scholarships and fellowships	700	463
Research	-	2,756
Instruction	1,443	2,327
Public service	720	604
Academic support	92	32
Institutional support	8,989	7,267
Student services	-	7
Loans	3,388	3,205
Capital projects	42,018	36,618
Debt service	18,462	21,604
Other	281	468
Unrestricted	97,182	96,640
Total net assets	<u>\$ 710,926</u>	<u>\$ 634,148</u>

See notes to the financial statements

**University of Louisville Foundation, Inc. and Affiliates**  
**Consolidated Statements of Financial Position**  
**June 30, 2008 and 2007**  
**(In Thousands)**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,611	\$ 20,072
Accounts, notes, and accrued interest receivable	8,306	4,345
Loan receivable from the University of Louisville Athletic Association, Inc	3,205	3,705
Prepaid expenses and other	1,840	1,332
Contributions receivable	24,708	30,589
Due from University of Louisville	-	1,751
Investments	714,988	800,362
Restricted cash	81,036	5,848
Funds held in trust by others	46,822	48,800
Restricted investments	5,023	4,759
Other assets	366	2
Capital assets, net	55,649	57,157
Total assets	\$ 949,554	\$ 978,722
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 4,527	\$ 3,776
Funds held in trust for others	58,554	57,515
Bonds payable	52,391	53,105
Other	11,297	11,093
Due to University of Louisville	8,819	-
Total liabilities	135,588	125,489
Net assets:		
Unrestricted:		
Unrestricted - designated	418,874	457,470
Unrestricted - undesignated	18,930	22,184
Total unrestricted	437,804	479,654
Temporarily restricted	35,373	43,854
Permanently restricted	340,789	329,725
Total net assets	813,966	853,233
Total liabilities and net assets	\$ 949,554	\$ 978,722

See notes to the financial statements

**Louisville Medical Center Development Corporation**  
**Consolidated Balance Sheets**  
**December 31, 2007 and 2006**  
**(In Thousands)**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,276	\$ 175
Restricted cash	1,703	-
Interest receivable	-	4
Accounts receivable	204	18
Amounts due from related parties	60	31
Prepaid expenses	28	52
Property and equipment	15,689	13,836
Other investments	214	176
Other assets and accrued income	66	33
Convertible note/notes receivable	25	500
Refundable advance	-	150
Total assets	<u>\$ 19,265</u>	<u>\$ 14,975</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued interest	\$ 131	\$ 37
Accrued wages and benefits	-	3
Other accrued liabilities	103	282
Notes payable	8,520	8,870
Convertible note	389	-
Total liabilities	<u>9,143</u>	<u>9,192</u>
Unrestricted net assets	8,419	5,783
Temporarily restricted assets	1,703	-
Total net assets	<u>10,122</u>	<u>5,783</u>
Total liabilities and net assets	<u>\$ 19,265</u>	<u>\$ 14,975</u>

See notes to the financial statements

**University of Louisville and Affiliated Corporations**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2008 and 2007**  
**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship allowance of \$44,404 in 2008 and \$39,471 in 2007	\$ 142,222	\$ 124,809
Clinical services and practice plan	174,885	157,653
Federal grants and contracts	129,674	114,989
State and local grants and contracts	33,704	31,022
Nongovernmental grants and contracts	11,624	11,949
Sales and services of educational departments	4,514	2,206
Facilities and administrative cost recoveries	21,204	20,575
Auxiliary enterprises, net of discount of \$815 in 2008 and \$720 in 2007	10,888	9,942
Intercollegiate athletics	33,778	32,761
Other operating revenues	3,009	2,333
Total operating revenues	<u>565,502</u>	<u>508,239</u>
<b>OPERATING EXPENSES</b>		
Instruction	228,050	214,282
Research	135,764	131,055
Public service	75,116	71,571
Academic support	68,742	57,407
Student services	22,869	19,727
Institutional support	42,129	38,534
Operation and maintenance of plant	44,899	39,922
Scholarships and fellowships	32,622	29,432
Auxiliary enterprises	1,921	2,357
Intercollegiate athletics	52,242	44,228
Depreciation	35,907	34,404
Total operating expenses	<u>740,261</u>	<u>682,919</u>
Operating loss	<u>(174,759)</u>	<u>(174,680)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	169,484	170,279
Gifts	30,764	20,761
Investment income	9,601	8,799
Realized and unrealized (loss)/gain on investments	(817)	4,658
Interest on capital asset-related debt	(5,438)	(5,083)
Other nonoperating revenues	732	819
Net nonoperating revenues	<u>204,326</u>	<u>200,233</u>
Income before other revenues, expenses, gains and losses	29,567	25,553
Capital appropriations	29,175	39,150
Capital gifts	15,969	1,732
Net assets transferred from University of Louisville Foundation, Inc.	2,067	3,064
Total other revenues	<u>47,211</u>	<u>43,946</u>
Increase in net assets	76,778	69,499
<b>NET ASSETS</b>		
Net assets-beginning of year	634,148	564,649
Net assets-end of year	<u>\$ 710,926</u>	<u>\$ 634,148</u>

See notes to the financial statements

**University of Louisville Foundation, Inc. and Affiliates**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2008 and 2007**  
(In Thousands)

	Unrestricted		Temporarily restricted		Permanently restricted		Totals	
	2008	2007	2008	2007	2008	2007	2008	2007
<b>REVENUES, GAINS AND OTHER SUPPORT</b>								
Gifts	\$ 21,559	\$ 17,451	\$ 2,880	\$ 710	\$ 9,629	\$ 13,837	\$ 34,068	\$ 31,998
Research Challenge Trust Fund	-	-	-	-	2,154	1,100	2,154	1,100
Investment income	2,849	2,922	-	-	-	-	2,849	2,922
Endowment income	10,543	12,232	507	411	3	-	11,053	12,643
Net realized and unrealized gain/(loss) on investments	(15,274)	105,808	(3,093)	5,813	(1,978)	4,393	(20,345)	116,014
Residence hall income	6,166	5,742	-	-	-	-	6,166	5,742
Change in fair value of interest rate swap agreements	(2)	(27)	-	-	-	-	(2)	(27)
Other	2,349	1,820	-	6	-	-	2,349	1,826
Net assets released from restrictions:								
Satisfaction of program restrictions	1,429	2,166	(1,429)	(2,166)	-	-	-	-
Reclassifications	(926)	(821)	(330)	(500)	1,256	1,321	-	-
Expiration of time restrictions	7,016	8,399	(7,016)	(8,399)	-	-	-	-
Total revenues, gains and other support	<u>35,709</u>	<u>155,692</u>	<u>(8,481)</u>	<u>(4,125)</u>	<u>11,064</u>	<u>20,651</u>	<u>38,292</u>	<u>172,218</u>
<b>EXPENSES</b>								
Contributions to various University of Louisville departments	2,067	3,064	-	-	-	-	2,067	3,064
Payments on behalf of the University of Louisville for:								
Instruction	4,451	3,507	-	-	-	-	4,451	3,507
Research	18,704	16,978	-	-	-	-	18,704	16,978
Public service	2,367	1,371	-	-	-	-	2,367	1,371
Academic support	12,452	11,274	-	-	-	-	12,452	11,274
Student services	229	113	-	-	-	-	229	113
Institutional support	10,796	7,297	-	-	-	-	10,796	7,297
Operation and maintenance of plant	3,488	631	-	-	-	-	3,488	631
Scholarships/fellowships	6,947	6,287	-	-	-	-	6,947	6,287
Payments to annuitants and present value adjustment	1,126	864	-	-	-	-	1,126	864
Interest expense	1,852	2,440	-	-	-	-	1,852	2,440
Residence hall operations, including depreciation	5,560	4,918	-	-	-	-	5,560	4,918
General and administrative, including fundraising	<u>7,520</u>	<u>4,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,520</u>	<u>4,929</u>
Total expenses	<u>77,559</u>	<u>63,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,559</u>	<u>63,673</u>
Net change in assets from operations	<u>(41,850)</u>	<u>92,019</u>	<u>(8,481)</u>	<u>(4,125)</u>	<u>11,064</u>	<u>20,651</u>	<u>(39,267)</u>	<u>108,545</u>
<b>Net assets at beginning of year</b>	<u>479,654</u>	<u>387,635</u>	<u>43,854</u>	<u>47,979</u>	<u>329,725</u>	<u>309,074</u>	<u>853,233</u>	<u>744,688</u>
<b>Net assets at end of year</b>	<u>\$ 437,804</u>	<u>\$ 479,654</u>	<u>\$ 35,373</u>	<u>\$ 43,854</u>	<u>\$ 340,789</u>	<u>\$ 329,725</u>	<u>\$ 813,966</u>	<u>\$ 853,233</u>

See notes to the financial statements

**Louisville Medical Center Development Corporation**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2007 and 2006**  
(In Thousands)

	<u>2007</u>	<u>2006</u>
<b>UNRESTRICTED NET ASSETS:</b>		
Revenue and support		
Contributions	\$ 780	\$ 780
Federal grants	427	48
State grants	562	750
Local grants	200	375
Net assets released from restrictions from		
private grants	2,500	-
Interest income	63	78
Rental income	495	556
Business development income	175	107
Miscellaneous income	217	198
Total revenue and support	<u>5,419</u>	<u>2,892</u>
Expenses		
Salaries and fringe benefits	1,092	1,258
Marketing and communications	3	30
Interest expense	525	521
Professional services	340	462
Office expenses	17	30
Utilities	179	192
Travel, meals, and entertainment	20	50
Office rent and lease expenses	12	37
Dues, subscriptions, and memberships	35	40
Repairs and maintenance	91	113
Property management services	79	92
Insurance	51	49
Bad debts	5	6
Forgiveness of indebtedness	-	50
Depreciation expense	288	297
Taxes and licenses	19	35
Miscellaneous	6	11
Loss on sale of assets	21	-
Total expenses	<u>2,783</u>	<u>3,273</u>
Increase/(decrease) in unrestricted net assets	2,636	(381)
<b>TEMPORARILY RESTRICTED NET ASSETS:</b>		
Private grants	4,203	-
Net assets released from restrictions	<u>(2,500)</u>	<u>-</u>
Increase in temporarily restricted net assets	1,703	-
Increase/(decrease) in net assets	4,339	(381)
Net assets, beginning of year	<u>5,783</u>	<u>6,164</u>
Net assets, end of year	<u>\$ 10,122</u>	<u>\$ 5,783</u>

See notes to the financial statements

**University of Louisville and Affiliated Corporations**  
**A Component Unit of the Commonwealth of Kentucky**  
**Statements of Cash Flows**  
**Years Ended June 30, 2008 and June 30, 2007**  
(In Thousands)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Student tuition and fees	\$ 138,294	\$ 126,989
Clinical services and practice plan	180,689	152,043
Grants and contracts	175,437	151,971
Sales and services of educational departments	4,388	2,200
Payments to suppliers	(169,424)	(154,190)
Payments for utilities	(17,137)	(15,367)
Payments to employees	(359,962)	(338,922)
Payments for benefits	(80,480)	(75,612)
Payments for scholarships and fellowships	(27,159)	(25,249)
Loans issued to students and employees	(1,172)	447
Auxiliary enterprises	11,032	10,054
Facilities and administrative cost recoveries	21,204	20,575
Intercollegiate athletics, net	(15,102)	(10,632)
Other receipts	5,357	3,495
Net cash used by operating activities	<u>(134,035)</u>	<u>(152,198)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	169,484	170,279
Gifts and grants	22,037	20,819
Transfers from related entities	2,023	3,018
Other noncapital financing activities	968	1,063
Net cash provided by noncapital financing activities	<u>194,512</u>	<u>195,179</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital appropriations received	-	39,150
Capital gifts received	4,656	4,369
Purchases of capital assets	(107,670)	(60,016)
Proceeds from issuance of long-term liabilities	-	41,040
Payment on note payable to University of Louisville Foundation, Inc.	(500)	(500)
Principal paid on bonds and notes payable	(13,162)	(29,635)
Interest paid on bonds and notes payable	(4,955)	(5,408)
Deposits with bond trustee	4,676	1,941
Other capital financing activities - loss on defeasance of bonds	(86)	(521)
Net cash used by capital and related financing activities	<u>(117,041)</u>	<u>(9,580)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	46,017	85,285
Purchase of investments	(30,830)	(87,166)
Interest on investments	10,308	7,311
Net cash provided by investing activities	<u>25,495</u>	<u>5,430</u>
Net (decrease)/increase in cash and cash equivalents	(31,069)	38,831
Cash and cash equivalents - beginning of year	91,602	52,771
Cash and cash equivalents - end of year	<u>\$ 60,533</u>	<u>\$ 91,602</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (174,759)	\$ (174,680)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	35,907	34,404
Loss on equipment disposals	226	223
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	(1,198)	(6,955)
Inventories	196	219
Other assets	(568)	(57)
Accounts payable and accrued liabilities	4,966	(544)
Deferred revenue	6,402	(6,199)
Deposits	317	(160)
Due to University of Louisville Foundation, Inc.	(10,503)	1,710
Deferred compensation and wages payable	1,252	486
Other long-term liabilities	3,727	(645)
Net cash used by operating activities	<u>\$ (134,035)</u>	<u>\$ (152,198)</u>
Non cash transactions:		
Transfer of equipment from the University of Louisville Foundation, Inc.	\$ 44	\$ 44
Capital lease additions	<u>\$ 1,646</u>	<u>\$ 4,647</u>
Capital asset additions in accounts payable	<u>\$ 13,486</u>	<u>\$ 8,832</u>
Gifts of capital assets	<u>\$ 18</u>	<u>\$ -</u>

See notes to the financial statements

**University of Louisville and Affiliated Corporations**

**A Component Unit of the Commonwealth of Kentucky**

**Notes to Financial Statements**

**June 30, 2008 and 2007**

1. Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

The University of Louisville (University) is a state supported research university located in Kentucky's largest metropolitan area and is a component unit of the Commonwealth of Kentucky.

The University has three campuses. The 287-acre Belknap Campus is three miles from downtown Louisville and houses eight of the University's twelve colleges and schools. The Health Sciences Center, consisting of 46 acres, is situated in downtown Louisville's medical complex and houses the University's health related programs. On the 243-acre Shelby Campus located in eastern Jefferson County are the National Crime Prevention Institute and the Division of Distance and Continuing Education. In recent years, the University has also offered expanded campus courses both offsite and at international locations.

a. Basis of Presentation

The financial statements include the financial position and operations of the University and the following affiliated corporations, since they are related through certain common management and trustees:

University of Louisville Athletic Association, Inc. (the Association)  
University of Louisville Research Foundation, Inc. (the Research Foundation)

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University reports the University of Louisville Foundation, Inc. and Affiliates (the Foundation) and the Louisville Medical Center Development Corporation (LMCDC) as discretely presented component units.

The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

The separate financial statements of the Association, the Research Foundation, and the financial statements of the University can be found at the following:

<http://www.louisville.edu/vpf/financialadm/statements.html>

b. Cash and Cash Equivalents

The University considers all investments (not held for long-term purposes) with original maturities of three months or less to be cash equivalents.

c. Deposits With Bond Trustee

As of June 30, 2008 and 2007, deposits with bond trustee consist of cash and investments in governmental securities of \$3.0 million and \$3.3 million, for the Stadium Project Lease Revenue Bonds, respectively; and \$13.9 million and \$18.2 million for the Educational Building and Housing System Revenue Bonds, respectively.

d. Investments and Investment Income

Investments in marketable securities and real estate are stated at current market value. Market value is determined using quoted market prices. Investment income consists of interest and dividend income, realized gains and losses, and the net change for the year in the fair value of investments carried at fair value.

e. Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable are recorded net of estimated uncollectible amounts.

f. Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was approximately \$0.4 million at June 30, 2008 and 2007.

g. Inventories

Inventories are valued at the lower of cost or market, under the first-in, first-out method.

h. Capital Assets

Capital assets are stated principally at cost, or estimated market value at date of receipt from donors. Capital assets are depreciated using the straight-line basis over the estimated useful lives of the assets as follows: buildings – 40 years, infrastructure – 60 years, land improvements – 40 years, equipment – 3-15 years, leasehold improvements – 20 years, and library materials – 10 years. Assets under capital leases are amortized on the straight-line basis over the estimated useful life of the asset, or the lease term, whichever is shorter.

The University has elected to capitalize collections which 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.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. During the years ended June 30, 2008 and 2007, the University did not capitalize any interest.

i. Deferred Compensation Expense

Deferred compensation expense is recognized as expense over the term of the related employment agreements.

j. Deferred Revenue

Revenues of summer school academic terms are recognized in the fiscal year earned.

k. Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation or sick benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

l. Net Assets

Net assets of the University are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net assets are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

m. Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as tuition, clinical operations, grants and contracts, and intercollegiate activities.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state appropriations, capital appropriations, gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, such as investment income.

n. Student Tuition and Fees

Student tuition and fees are presented net of scholarships and fellowships applied to student accounts. Stipends and other payments made directly to students are presented as scholarships and fellowships expense.

o. Clinical Services and Practice Plan Revenue

The University has agreements with third-party payers that provide for payments to the University at amounts different from its established rates. Clinical services and practice plan revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for the services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

p. Government Grants

Support funded by grants is recognized as the University performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be made.

q. Tax Status

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

r. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

s. Reclassifications

Certain 2007 amounts have been reclassified to conform with 2008 presentation. These reclassifications had no effect on the change in net assets.

2. Cash on Deposit and Investments

The University invests in various investment securities. Investment securities 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 in the statements of net assets. The following sections discuss the risks related to deposits and investments held by the University.

a. Summary of Carrying Values

The fair market value of deposits and investments as of June 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Deposits	\$ 60,533	\$ 91,602
Investments		
Variable rate demand notes	18,187	19,259
U.S. Treasury obligations	16,919	23,558
U.S. agencies obligations	34,658	48,005
Other government obligations	4,785	2,440
External investment pools	2,092	4,475
Investments held with the Foundation	43,694	42,952
Certificates of deposit	1,900	1,900
Annuities	296	-
	<u>\$ 183,064</u>	<u>\$ 234,191</u>

The deposits and investments shown are included in the statements of net assets as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Included in the following statement of net assets captions:		
Cash and cash equivalents	\$ 47,346	\$ 32,697
Deposit with bond trustee-current	11,040	10,769
Short-term investments	22,852	24,363
Restricted cash and cash equivalents	13,187	58,905
Deposit with bond trustee-noncurrent	5,879	10,791
Investments held with the Foundation	43,694	42,952
Other long-term investments	39,066	53,714
	<u>\$ 183,064</u>	<u>\$ 234,191</u>

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (the Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in the Common Fund and Variable Rate Demand Notes are substantially covered by collateral held by the financial agent. The University does not have a formal policy addressing custodial credit risk.

At June 30, 2008 and 2007, the University had the following deposits subject to custodial credit risk as follows (in thousands):

June 30, 2008	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized		\$ 2,744	\$ 2,744
Collateralized with securities held by the pledging financial institution		2,833	2,833
Collateralized with securities held by the Commonwealth in the Commonwealth's name	\$ 48,995	-	48,995
Total	<u>\$ 48,995</u>	<u>\$ 5,577</u>	<u>\$ 54,572</u>
June 30, 2007	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized		\$ 132	\$ 132
Collateralized with securities held by the pledging financial institution		6,773	6,773
Collateralized with securities held by the Commonwealth in the Commonwealth's name	\$ 33,450	-	33,450
Total	<u>\$ 33,450</u>	<u>\$ 6,905</u>	<u>\$ 40,355</u>

c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The University's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, bankers acceptances, and variable rate demand notes with a maturity not greater than three years. The University has entered into forward purchase agreements for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve. The final maturity under these agreements is May 1, 2023.

As of June 30, 2008 and 2007, the University had the following investments subject to interest rate risk (in thousands):

June 30, 2008	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 16,919	\$ 3,177	\$ 5,193	\$ 6,391	\$ 2,158
U.S. agencies obligations	34,658	19,320	15,338	-	-
Other government obligations	4,785	1,325	3,460	-	-
External investment pools	2,092	2,092	-	-	-
Annuities	296	296	-	-	-
Certificates of deposit	200	-	200	-	-
	<u>\$ 58,950</u>	<u>\$ 26,210</u>	<u>\$ 24,191</u>	<u>\$ 6,391</u>	<u>\$ 2,158</u>

June 30, 2007	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 23,558	\$ 9,384	\$ 3,195	\$ 8,821	\$ 2,158
U.S. agencies obligations	48,005	16,965	31,040	-	-
Other government obligations	2,440	585	1,855	-	-
External investment pools	4,475	4,475	-	-	-
Certificates of deposit	200	-	200	-	-
	<u>\$ 78,678</u>	<u>\$ 31,409</u>	<u>\$ 36,290</u>	<u>\$ 8,821</u>	<u>\$ 2,158</u>

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. By University policy, commercial paper must be rated the highest (A-1/P-1) by at least one rating service and by each rating service rating said credit. Banker's acceptances must be issued by a bank having a short-term rating of the underlying bank rated the highest (A-1/P-1). Variable rate demand notes must be backed by an unconditional letter of credit issued by a domestic bank having outstanding commercial paper rated the highest (A-1/P-2) by at least one rating service and by each rating service rating said credit. All commercial paper and banker's acceptances must be issued by domestic entities. The Commonwealth investment pool can invest in U.S. treasuries and agencies; commercial paper or asset backed securities rated in the highest category by a nationally recognized rating agency; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized rating agency; shares of mutual funds (up to 10%); and state and local property tax certificates of delinquency secured by interests in real estate.

As of June 30, 2008 and 2007 the University had the following deposits and investments exposed to credit risk as follows (in thousands):

June 30, 2008	A1+ / P1	A1 / P1	S&P Credit Ratings		Not Rated	No Risk	Total
			AAA	AA-			
Variable rate demand notes	\$ 740	\$ 17,447				\$ -	\$ 18,187
External investment pools	-	-	\$ 2,092			-	2,092
Annuities				\$ 296			296
Investment held with the Foundation	-	-	-	-	\$ 43,694	-	43,694
	<u>\$ 740</u>	<u>\$ 17,447</u>	<u>\$ 2,092</u>	<u>\$ 296</u>	<u>\$ 43,694</u>	<u>\$ -</u>	<u>\$ 64,269</u>

June 30, 2007	A1+ / P1	A1 / P1	S&P Credit Ratings		Not Rated	No Risk	Total
			AAA	AA-			
Variable rate demand notes	\$ 840	\$ 17,532		\$ -		\$ 887	\$ 19,259
External investment pools	-	-	\$ 4,475	-		-	4,475
Investment held with the Foundation	-	-	-	-	\$ 42,952	-	42,952
	<u>\$ 840</u>	<u>\$ 17,532</u>	<u>\$ 4,475</u>	<u>\$ -</u>	<u>\$ 42,952</u>	<u>\$ 887</u>	<u>\$ 66,686</u>

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, excluding investments issued or explicitly guaranteed by the U.S government and investments in mutual funds, external investment pools and other pooled investments.

At June 30, 2008 and 2007, the University has no investments in any one issuer as defined above that represent 5% or more of total investments.

The asset allocation for investments held with the Foundation as of June 30, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Preferred and common stock	20%	32%
Corporate bonds	3%	2%
Mutual funds	45%	44%
Marketable alternatives	16%	7%
Real estate	2%	2%
Investment in partnerships	11%	9%
U.S. Government securities	3%	4%
Total	<u>100%</u>	<u>100%</u>

The Foundation's investments do not have a significant concentration of credit risk within any industry or specific institution.

f. Foreign Currency Risk

This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2008 and 2007.

3. Loans, Accounts and Contributions Receivable, net

Loans, accounts and contributions receivable, net as of June 30, 2008 and 2007 are as follows and on the following page (in thousands):

	<b>2008</b>		
	<b>Gross</b>		<b>Net</b>
	<b>Receivable</b>	<b>Allowance</b>	<b>Receivable</b>
Student tuition and fees	\$ 27,620	\$ (3,097)	\$ 24,523
Patient care	12,172	(3,668)	8,504
Contributions receivable	39,585	(1,424)	38,161
UMC affiliation agreement	5,463	-	5,463
Sponsored agreements	20,996	(1,687)	19,309
Rent from UMC	4,500	-	4,500
Capital appropriation	29,175	-	29,175
Trade receivables	642	-	642
Other	1,414	(118)	1,296
Total	<u>\$ 141,567</u>	<u>\$ (9,994)</u>	131,573
Less: Discount			(3,514)
Current portion			<u>91,754</u>
Noncurrent portion			<u>\$ 36,305</u>

<b>2007</b>			
	<b>Gross</b>		<b>Net</b>
	<b>Receivable</b>	<b>Allowance</b>	<b>Receivable</b>
Student tuition and fees	\$ 22,038	\$ (2,412)	\$ 19,626
Patient care	12,860	(4,278)	8,582
Contributions receivable	17,646	(2,155)	15,491
UMC affiliation agreement	9,925	-	9,925
Sponsored agreements	20,296	(1,414)	18,882
Rent from UMC	4,750	-	4,750
Trade receivables	849	-	849
Other	1,894	-	1,894
<b>Total</b>	<b>\$ 90,258</b>	<b>\$ (10,259)</b>	<b>79,999</b>
Less: Discount			(2,274)
Current portion			54,849
Noncurrent portion			<u>\$ 22,876</u>

Contributions receivable consist primarily of charitable gifts totaling \$39.6 million pledged from individual and corporate donors that are associated with the construction projects of the Association. Receivables with payment schedules in excess of one year are stated at their discounted present value, using discount rates ranging from 1.2% to 5.9% as of June 30, 2008.

Contributions receivable as of June 30, 2008 and 2007 are due to be received as follows (in thousands):

	<b>2008</b>	<b>2007</b>
Less than one year	\$ 12,512	\$ 3,249
One to three years	9,153	5,478
Greater than three years	17,920	8,919
Subtotal	39,585	17,646
Less discount	(3,514)	(2,274)
Less allowance	(1,424)	(2,155)
Net contributions receivable	<u>\$ 34,647</u>	<u>\$ 13,217</u>

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36 *Recipient Reporting for Certain Shared Nonexchange Revenues*, the University records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

4. Capital Assets, Net

Capital assets as of June 30, 2008 and 2007 are as follows and on the following page (in thousands):

	<b>2008</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Transfers</b>	
<b>Cost - Non depreciable</b>					
Land	\$ 41,515				\$ 41,515
Rare books	41,484				41,484
Construction in progress	41,252	\$ 89,490		\$ (13,947)	116,795
Subtotal	<u>124,251</u>	<u>89,490</u>		<u>(13,947)</u>	<u>199,794</u>
<b>Cost - Depreciable</b>					
Buildings	636,188	3,467	\$ (1,513)	13,661	651,803
Infrastructure	4,132	-	-	-	4,132
Land improvements	5,543	-	-	213	5,756
Equipment	127,046	12,373	(3,278)	118	136,259
Leasehold improvements	500	-	-	-	500
Library materials	130,952	8,658	-	-	139,610
Subtotal	<u>904,361</u>	<u>24,498</u>	<u>(4,791)</u>	<u>13,992</u>	<u>938,060</u>
Total capital assets-cost	<u>1,028,612</u>	<u>113,988</u>	<u>(4,791)</u>	<u>45</u>	<u>1,137,854</u>
<b>Accumulated depreciation</b>					
Buildings	250,895	15,626	(1,456)	-	265,065
Infrastructure	1,980	69	-	-	2,049
Land improvements	662	144	-	-	806
Equipment	93,381	12,395	(3,109)	2	102,669
Leasehold improvements	194	20	-	-	214
Library materials	92,720	7,653	-	(1)	100,372
Total accumulated depr.	<u>439,832</u>	<u>35,907</u>	<u>(4,565)</u>	<u>1</u>	<u>471,175</u>
Capital assets, net	<u>\$ 588,780</u>	<u>\$ 78,081</u>	<u>\$ (226)</u>	<u>\$ 44</u>	<u>\$ 666,679</u>

	2007				Ending Balance
	Beginning Balance	Additions	Retire- ments	Transfers	
<b>Cost - Non depreciable</b>					
Land	\$ 41,515				\$ 41,515
Rare books	41,484				41,484
Construction in progress	16,164	\$ 43,165		\$ (18,077)	41,252
Subtotal	<u>99,163</u>	<u>43,165</u>		<u>(18,077)</u>	<u>124,251</u>
<b>Cost - Depreciable</b>					
Buildings	617,116	2,151		16,921	636,188
Infrastructure	4,132	-		-	4,132
Land improvements	4,381	6		1,156	5,543
Equipment	113,978	16,136	\$ (3,114)	46	127,046
Leasehold improvements	500	-	-	-	500
Library materials	122,349	8,603	-	-	130,952
Subtotal	<u>862,456</u>	<u>26,896</u>	<u>(3,114)</u>	<u>18,123</u>	<u>904,361</u>
Total capital assets-cost	<u>961,619</u>	<u>70,061</u>	<u>(3,114)</u>	<u>46</u>	<u>1,028,612</u>
<b>Accumulated depreciation</b>					
Buildings	235,816	15,079	-	-	250,895
Infrastructure	1,912	68	-	-	1,980
Land improvements	531	131	-	-	662
Equipment	84,526	11,744	(2,891)	2	93,381
Leasehold improvements	174	20	-	-	194
Library materials	85,358	7,362	-	-	92,720
Total accumulated depr.	<u>408,317</u>	<u>34,404</u>	<u>(2,891)</u>	<u>2</u>	<u>439,832</u>
Capital assets, net	<u>\$ 553,302</u>	<u>\$ 35,657</u>	<u>\$ (223)</u>	<u>\$ 44</u>	<u>\$ 588,780</u>

During each of the fiscal years ended June 30, 2008 and 2007, the University received capital assets from the Foundation with a net value of \$44,000.

##### 5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Salaries and benefits	\$ 25,277	\$ 20,332
Payroll taxes	10,978	10,827
Construction	13,649	9,312
Accrued interest	1,241	1,289
Other	8,687	7,284
	<u>\$ 59,832</u>	<u>\$ 49,044</u>

6. Loan Payable to University of Louisville Foundation, Inc.

In January 1999, the Association obtained an \$8.5 million dollar unsecured, non-interest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the University and collections are transferred to the Association for the repayment of the loan. During each of the years ended June 30, 2008 and 2007, the Association repaid approximately \$0.5 million. The outstanding balance was approximately \$3.2 million and \$3.7 million as of June 30, 2008 and 2007, respectively, of which \$0.5 million was shown as current as of June 30, 2008 and 2007.

In July 2001, the Association obtained a \$347,000 unsecured, non-interest bearing loan from the Foundation for the refurbishing of the Cardinal Basketball offices. The outstanding loan balance is approximately \$316,000 for each of the years ended June 30, 2008 and 2007.

7. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2008 and 2007 (in thousands):

	<u>Interest Rate</u>	<u>Year of Maturity</u>	<u>2008</u>	<u>2007</u>
Consolidated Educational Building				
Revenue Bonds:				
Series M of 2003	1.5% to 4.0%	2016	43,479	50,636
Series N of 2004	2.8% to 4.1%	2023	17,270	18,155
Series O of 2004	2.8% to 4.3%	2023	7,163	7,740
Series P of 2005	3.0% to 4.0%	2025	3,908	4,075
Housing Systems Revenue Bonds:				
Series E of 2003	2.5% to 3.5%	2013	3,265	4,025
Series F of 2004	3.3% to 4.2%	2014	4,645	4,936
General Receipts Bonds				
Series A of 2007	4.0%	2027	40,539	40,539
County of Jefferson, Kentucky				
Governmental Project Lease				
Revenue Bonds, Series 1997	4.8% to 5.4%	2018	11,445	12,305
Columbia agreement	N/A	2008	-	81
Capital lease obligations	3.1% to 4.8%	2013	<u>5,185</u>	<u>5,865</u>
Total long-term debt			<u>\$ 136,899</u>	<u>\$ 148,357</u>

The change in bonds, notes and capital leases is summarized as follows (in thousands):

<b>2008</b>						
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Columbia agreement	\$ 81		\$ (81)	\$ -		
Bonds payable	142,411		(10,697)	131,714	\$ 12,307	\$ 119,407
Capital leases	5,865	\$ 1,646	(2,326)	5,185	1,856	3,329
<b>Total</b>	<b>\$ 148,357</b>	<b>\$ 1,646</b>	<b>\$ (13,104)</b>	<b>\$ 136,899</b>	<b>\$ 14,163</b>	<b>\$ 122,736</b>

<b>2007</b>						
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Note payable	\$ 10,597		\$ (10,597)	\$ -		
Columbia agreement	243		(162)	81	\$ 81	
Bonds payable	118,293	\$ 40,539	(16,421)	142,411	10,697	\$ 131,714
Capital leases	3,589	4,647	(2,371)	5,865	1,703	4,162
<b>Total</b>	<b>\$ 132,722</b>	<b>\$ 45,186</b>	<b>\$ (29,551)</b>	<b>\$ 148,357</b>	<b>\$ 12,481</b>	<b>\$ 135,876</b>

Principal maturities and interest on bonds, notes and capital leases for the next five years and in subsequent five-year periods are as follows (in thousands):

<b>For the year ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	14,163	4,986	19,149
2010	14,195	4,642	18,837
2011	13,882	4,089	17,971
2012	13,602	3,582	17,184
2013	10,190	3,069	13,259
2014-2018	35,129	10,666	45,795
2019-2023	21,766	5,343	27,109
2024-2028	13,972	1,429	15,401
<b>Total</b>	<b>\$ 136,899</b>	<b>\$ 37,806</b>	<b>\$ 174,705</b>

The University has capitalized leased equipment with a net book value of \$4.5 million and \$5.3 million as of June 30, 2008 and 2007, respectively.

Bonds are collateralized by mortgages on certain University properties and the pledge of certain building revenues, tuition and fees for the Consolidated Educational Building Revenue Bonds and auxiliary revenues for the Housing System Revenue Bonds. General Receipts Bonds, 2007 Series A is collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges. As of

June 30, 2008 and 2007, investments (U.S. government securities) at current market value totaling approximately \$16.9 million and \$21.5 million, respectively, for retirement of indebtedness and renewal and replacement funds have been deposited with the bond trustees as required under the various bond indentures.

**County of Jefferson (the County), Kentucky Governmental Project Lease Revenue Bonds, Series 1997**

In March 1997, the County issued \$18.5 million of lease revenue bonds to be used for the acquisition, construction and installation of the Stadium. The Association entered into a Trust Indenture and Financing Agreement with the County, which requires the Association to pay the trustee for all monetary obligations of the bonds. The County has entered into a lease agreement with the University and has agreed to make lease payments to the trustee of up to \$2 million annually if the Association is unable to pay their minimum debt requirements, all as defined in the lease agreement. The County has also entered into a Sublease and Assignment Agreement with the City of Louisville (the City) where the City will make sublease rental payments to the County of up to 50% of the amounts paid as lease rental payments by the County.

**General Receipts Bond Series A of 2007**

In April 2007, the University issued the \$41.0 million General Receipts Bond, Series A to provide permanent fixed rate financing for the renovation of the Home of the Innocents property, to provide office space to be used by the University's School of Public Health and Information Sciences; land acquisition for and construction of Patterson Baseball Stadium; construction of Trager Field House for use by intercollegiate teams; construction of the YUM Practice Facility, to be used by the basketball and volleyball teams; and construction of the Center for Predictive Medicine, a Level 3 Regional Bio-safety Laboratory. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. Final maturity of the bonds is September 1, 2027.

**Kentucky Asset/Liability Commission Project Note, 2005 Agency Fund Second Series A-2**

In May 2007, the University advance-refunded \$10.5 million in Kentucky Asset/Liability Commission Series A-2 notes payable, the proceeds of which were loaned to the University for the construction of a multipurpose fieldhouse and practice facility, and the purchase of land for and construction of a baseball stadium. The refunding was undertaken to convert the adjustable rate note payable into a fixed rate obligation and to take advantage of the availability of low market rates.

## 8. Other Liabilities

Other liabilities of the University consisted of the following at June 30, 2008 and 2007 (in thousands):

	<b>2008</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Due to University of Louisville Foundation, Inc.	\$ 1,751		\$ (1,435)	\$ 316		\$ 316
Deferred compensation and wages payable	7,797	\$ 3,258	(2,231)	8,824	\$ 1,658	7,166
Loan payable to University of Louisville Foundation, Inc.	3,705	-	(500)	3,205	500	2,705
Deposits	6,761	470	(151)	7,080	-	7,080
Deferred revenue	39,955	43,109	(35,363)	47,701	42,016	5,685
Amounts due federal government for student loan program	17,080	-	(388)	16,692	-	16,692
Other long-term liabilities	1,500	6,338	(500)	7,338	3,330	4,008
<b>Total</b>	<b>\$ 78,549</b>	<b>\$ 53,175</b>	<b>\$ (40,568)</b>	<b>\$ 91,156</b>	<b>\$ 47,504</b>	<b>\$ 43,652</b>
	<b>2007</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Due to University of Louisville Foundation, Inc.	\$ 316	\$ 1,435		\$ 1,751	\$ 1,435	\$ 316
Deferred compensation and wages payable	7,051	2,080	\$ (1,334)	7,797	2,264	5,533
Loan payable to University of Louisville Foundation, Inc.	4,205	-	(500)	3,705	500	3,205
Deposits	6,921	131	(291)	6,761	-	6,761
Deferred revenue	46,055	31,751	(37,851)	39,955	38,459	1,496
Amounts due federal government for student loan program	16,755	325	-	17,080	-	17,080
Other long-term liabilities	2,237	-	(737)	1,500	500	1,000
<b>Total</b>	<b>\$ 83,540</b>	<b>\$ 35,722</b>	<b>\$ (40,713)</b>	<b>\$ 78,549</b>	<b>\$ 43,158</b>	<b>\$ 35,391</b>

Other long-term liabilities as of June 30, 2008 and 2007, consist of the University's portion of other post-employment benefits, as discussed in Note 13 – Post Employment Healthcare Benefits, and other contractual payments. The current portion is included in accounts payable and accrued liabilities in the statements of net assets as of June 30, 2008 and 2007.

## 9. Component Units

### a. University of Louisville Foundation, Inc. and Affiliates (Foundation)

The Foundation is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The fifteen-member board of the Foundation is self-perpetuating. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Total expenditures by the Foundation on behalf of the University for the years ended June 30, 2008 and 2007 were \$59.4 million and \$47.6 million, respectively. Complete financial statements for the Foundation can be obtained from the Controller's Office at University of Louisville, Louisville, KY 40292 or at the website [www.louisville.edu/vpf/financialadm/statements.html](http://www.louisville.edu/vpf/financialadm/statements.html).

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Non-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences. The following affiliated entities are included in the financial statements of the Foundation.

ULH, Inc. (ULH) is affiliated with the Foundation through a common Board of Directors and certain common management. ULH's purpose is to (a) lease and or acquire and operate university housing projects and issue revenue bonds for university housing, and (b) receive and dispose or retain gifts of real estate independent of the Foundation. ULH owns and operates student housing facilities for the benefit of University students.

University Holdings, Inc (UHI), originally named Cardinal Real Estate, Inc., is a non-stock, non-profit corporation created in September 2007 for the benefit of and to carry out the purposes of the University of Louisville Foundation, Inc. UHI provides oversight and management support to various affiliated entities. UHI is affiliated with the University of Louisville Foundation, Inc. through certain common management and directors.

University of Louisville Development Corporation (ULDC) is a limited liability company created in September 2007, whose sole member is the University of Louisville Foundation, Inc., to develop and manage the real estate operations of the Shelby Campus of the University. UHI is the Manager of ULDC.

Nucleus Healthcare, LLC was formed in February 2008 and subsequently renamed Nucleus: Kentucky's Life Sciences and Innovation Center, LLC (Nucleus). The University of Louisville Foundation, Inc. is the sole member of the corporation and UHI is the Manager. Nucleus had no activity during the fiscal year ended June 30, 2008.

AAF-Louisville, LLC (AAF) was formed in February 2008, with the University of Louisville Foundation, Inc. as its sole member and UHI as its Manager. AAF had no activity during the fiscal year ended June 20, 2008.

1. Investments and Investment Income

Investments as of June 30, 2008 and 2007 are as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Preferred and common stock	\$ 142,477	\$ 253,488
Corporate bonds	25,273	15,826
Mutual funds	322,235	347,029
Real estate	11,654	15,238
Investment in partnerships	78,861	77,526
U.S. government securities	21,027	31,547
Land and buildings	1,606	1,670
Marketable alternatives	111,251	57,434
Annuities	604	604
Total investments	<u>\$ 714,988</u>	<u>\$ 800,362</u>

The Foundation invests in various investment securities. Investment securities 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 in the 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. In an effort to mitigate this market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

The major portion of long-term investments is pooled in the Combined Endowment Fund. The Combined Endowment Fund is the general endowment pool for the Foundation. The Foundation has adopted an investment objective whereby the average annual return over the long term should equal the rate of inflation (measured by the Consumer Price Index) plus the average level of spending (as defined below) from the Combined Endowment Fund. The average annual return for the Combined Endowment Fund was -1.4% and 18.9% in 2008 and 2007, respectively.

The Combined Endowment Fund is 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. 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. In connection with these objectives, the Board of Trustees determines the portion of total return which may be expended. The approved spending policy establishes that 5.5% of the three-year moving average of the Combined Endowment Fund market value as of December 31 be

made available for spending in the subsequent fiscal year. Effective July 2008, the Board of Trustees approved a resolution to include an additional 1.0% assessment for development, alumni relations, and support services.

The amount available for spending under the policy was approximately \$32.0 million and \$27.5 million for the years ended June 30, 2008 and 2007, respectively, of which approximately \$21.5 million and \$22.5 million was actually expended for the years then ended.

At June 30, 2008 and 2007 the historic dollar value of certain endowment funds exceeded market value by an aggregate of approximately \$234,000 and \$2,000, respectively.

At June 30, 2008, the Foundation had the following commitments under contracts with limited partnership investment managers to fund capital calls. These capital calls will occur over the term of the respective agreements, which is generally a four-year period (in thousands):

	<b>Total Commitment</b>	<b>Contributed to Date</b>	<b>Remaining Commitment</b>
Endowment Private Equity Partner IV	\$ 5,000	\$ 4,855	\$ 145
Endowment Venture Partners III, LP	7,715	7,638	77
Endowment Venture Partners IV, LP	10,000	9,700	300
Endowment Venture Partners V, LP	4,400	4,088	312
Capital Venture Partners VI, LP	2,100	1,538	562
Capital Private Equity Partners V, LP	3,000	2,475	525
Chrysalis Ventures II, LP	2,500	2,418	82
Triathlon Medical Ventures	2,500	1,247	1,253
International Private Equity V, LP	3,000	1,871	1,129
Private Equity Partners VI	3,000	1,508	1,492
Capital Venture Partners VII	2,000	866	1,134
KY Seed Fund	1,000	431	569
Chrysalis Ventures III, LP	2,500	1,531	969
Capital Int'l Partners VI, LP	3,000	368	2,632
Private Equity Partners VII	4,000	294	3,706
Capital Venture Partners VIII, LP	3,000	233	2,767
Capital South Fund III	2,500	877	1,623
Asia Alternatives Capital Ptnrs II	5,000	71	4,929
Crow Holdings Realty Partners IV	5,000	3,347	1,653
Crow Holdings Realty Partners V	5,000	-	5,000
EnCap Oil & Gas	2,790	1,266	1,524
Enervest Energy XI-B	3,000	1,047	1,953
Lone Star	10,000	9,523	477
Värde Partners IX, LP	5,000	2,000	3,000
Lone Star VI	10,000	1,883	8,117
Lone Star Real Estate	5,000	-	5,000
	<u>\$ 112,005</u>	<u>\$ 61,075</u>	<u>\$ 50,930</u>

## 2. Bonds payable

Bonds payable were issued by ULH and consist of the following at June 30, 2008 and 2007 (in thousands):

	<b>Description</b>	<b>Year of Maturity</b>	<b>2008</b>	<b>2007</b>
Series 2001A (non taxable)	Variable rate demand bonds with principal payments of \$115 to \$2,935 are due annually beginning 9/1/02 through maturity, and interest is due monthly at variable rates up to 12% (1.59% and 3.75% as of June 30, 2008 and 2007, respectively)	2029	\$ 22,760	\$ 23,160
Series 2002A (non taxable)	Variable rate demand bonds with principal payments of \$25 to \$985 are due annually beginning 7/1/05 through maturity, and interest is due monthly at variable rates up to 12% (1.55% and 3.75% as of June 30, 2008 and 2007, respectively)	2032	14,000	14,060
Series 2002B (non taxable)	Principal payments of \$70 to \$100 are due annually beginning 7/1/04 through maturity, and interest is due monthly at variable rates up to 12% (5.47% as of June 30, 2007)	2007	-	100
Series 2005A (non taxable)	Principal payments of \$270 to \$1,060 are due annually beginning 6/1/16 through maturity, and interest is due monthly at fixed rates from 4% to 5%.	Ranging from 2016 to 2035	13,910	13,910
Series 2005B (taxable)	Principal payments of \$55 to \$390 are due annually beginning 6/1/07 through maturity, and interest is due monthly at a fixed rate of 4.91%.	2016	1,955	2,115
Total bonds payable			52,625	53,345
Less unamortized premium and discount			(234)	(240)
Bonds payable, net			\$ 52,391	\$ 53,105

The Foundation, as guarantor of the ULH debt, has a \$24.6 million letter of credit and a \$14.7 million letter of credit securing all principal and interest payments on the Series 2001 and 2002 bonds payable. The provisions of the letter of credit require that, should the bonds fail to be remarketed, and therefore, the letter of credit is drawn upon, such amounts drawn against the letter of credit will be due in sixty equal monthly installments beginning ninety days after the draw.

Amounts payable under the guaranty are limited as follows (in thousands):

<u>Residence Hall</u>	<u>Aggregate limit</u>	<u>Annual limit</u>
Bettie Johnson Hall	\$ 30,000	Lesser of \$1.5 million, or annual debt service.
Kurz Hall	14,460	\$ 1,037
Community Park	31,308	1,121

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

<u>For the Year Ended June 30,</u>	<u>Principal Due</u>
2009	\$ 765
2010	905
2011	1,055
2012	1,165
2013	1,275
Thereafter	<u>47,460</u>
Total	<u><u>\$ 52,625</u></u>

### 3. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities which are held and controlled by others. One of these is a perpetual and irrevocable trust known as the University of Louisville Trust (Trust). It was created in 1983 to receive, administer, and invest assets which result from gifts to the Trust. The market value of the Trust was approximately \$19.2 million and \$20.8 million as of June 30, 2008 and 2007, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$27.7 million and \$28.0 million as of June 30, 2008 and 2007, respectively. These funds are invested in various equities and income producing assets. For the years ended June 30, 2008 and 2007, the Foundation received income of approximately \$1.8 million and \$1.4 million, respectively, from these trusts. These receipts are included in endowment income.

### 4. 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. The Foundation serves in an agency capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2008 and 2007, the Foundation held approximately \$39.2 million and \$38.7 million, respectively, for the Association's investment purposes.

During the year ended June 30, 2004 the Foundation entered into an agreement with the University Medical Center (UMC) whereby the Foundation will serve in an agency capacity to invest funds on behalf of the UMC. The UMC is a separate corporation organized for the purpose of providing clinical services, instruction, and research activities for University faculty and students. As of June 30, 2008 and 2007, the Foundation held approximately \$3.8 million and \$3.1 million, respectively, for the UMC's investment purposes.

During the year ended June 30, 2005, the Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation will serve in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing healthcare services. As of June 30, 2008 and 2007, the Foundation held approximately \$11.1 million and \$11.4 million, respectively, for Jewish Hospital's investment purposes.

During the year ended June 30, 2007, the Foundation entered into an agreement with the Research Foundation on behalf of the School of Dentistry, whereby the Foundation will serve in an agency capacity to invest funds on behalf of the Research Foundation. As of June 30, 2008 and 2007, the Foundation held approximately \$4.5 million and \$4.3 million, respectively, for the Research Foundation's investment purposes.

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

5. Lease Guarantees

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, beginning in July 2008, the commencement date of the term of the lease. The annual lease payments due from MSPA to UFOB are approximately \$3.5 million, with an annual inflation of 3 percent. The lease payments commenced in July 2008.

6. Subsequent Event

In September 2008, approximately \$4.8 million of the Series 2001 bonds payable failed to remarket and the amounts were drawn against the letter of credit. The Foundation is required to make interest payments on the letter of credit of prime plus 3%, 8% as of September 2008. If these bonds fail to remarket, the principal is due in sixty monthly installments beginning ninety days after the date of failure.

b. Louisville Medical Center Development Corporation (LMCDC)

LMCDC is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The purpose of the LMCDC is to act as an agency, instrumentality, and constituted authority of Jewish Hospital, Norton Healthcare, Inc (Norton), UMC, and the University of Louisville in the promotion and development of joint medical or medical related projects. LMCDC receives contributions, grants, and fees. Funds are disbursed for projects designed to help the community capitalize on the economic development potential that exists within the health care and life sciences sectors.

Effective July 1, 2007, LMCDC became the sole member of MetaCyte Business Lab LLC (MetaCyte), a for-profit, Limited Liability Corporation formed in 2002. Substantial activities began in 2003. The purpose of MetaCyte is to provide infrastructure services, business and strategic planning, and other development and technical advice and guidance to early stage entities engaged in the life sciences sector.

Effective July 1, 2007, the members of LMCDC entered into agreements under which both Jewish Hospital and Norton withdrew as members from LMCDC, with the University and UMC remaining as the sole members of LMCDC. As a condition of these agreements, both Norton and Jewish Hospital agreed to continue financial support of LMCDC for an additional 18 months beginning July 1, 2007, for a total aggregate amount of \$281,250 each. In addition, both Jewish and Norton were released as guarantors and the University of Louisville Foundation became the sole guarantor of LMCDC's \$5,000,000 line of credit.

1. Property and Equipment

Property and equipment at December 31 consist of the following (in thousands):

	<u>2007</u>	<u>2006</u>
Construction-in-progress	\$ 1,535	\$ 1,530
Land held for construction	5,756	3,639
Subtotal	<u>7,291</u>	<u>5,169</u>
Land	2,234	2,234
Building and improvements	6,841	6,793
Office equipment	719	762
Leasehold improvements	-	51
Total	<u>17,085</u>	<u>15,009</u>
Less accumulated depreciation and amortization	<u>1,396</u>	<u>1,173</u>
Total property and equipment	<u><u>\$15,689</u></u>	<u><u>\$13,836</u></u>

LMCDC periodically evaluates these assets for impairment. No impairment losses were recorded in 2007 and 2006. In connection with the termination of the office lease in MedCenter 2, leasehold improvements with a remaining value of approximately \$26,000 were abandoned in 2007.

2. Notes Payable

The following is a summary of the line of credit and notes payable as of December 31, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Amount outstanding under line of credit agreement	\$ 4,120	\$ 4,470
Note payable, entered June 18, 2003	4,400	4,400
	<u>\$ 8,520</u>	<u>\$ 8,870</u>

In July 1999, LMCDC entered into a \$5,000,000 line of credit agreement with a financial institution. The line is unsecured and guaranteed by the Foundation, and matures July 15, 2009. \$879,901 and \$679,901 was unused and available on the line of credit at December 31, 2007 and 2006, respectively.

LMCDC has the option of borrowing at prime less one percent or at LIBOR plus one-half percent for all guaranteed obligations. Interest on prime rate loans shall be payable quarterly in arrears. Interest on LIBOR loans shall be payable at the end of each applicable contract period or quarterly, if earlier. The interest rates were at 5.89% and 5.74% at December 31, 2007 and were 5.87% and 5.95% at December 31, 2006.

In June 2003, LMCDC purchased additional property in the vicinity of the bio-research incubator facility. The cost to acquire the property was \$4,900,000, of which \$500,000 was paid at closing with the remaining \$4,400,000 payable in the form of a promissory note. The promissory note calls for a 6% fixed rate of interest, payable quarterly with a lump sum principal payment due on or before the fifth anniversary of the sale.

In August 2004, LMCDC entered into a \$550,000 line of credit agreement with a financial institution. The line is secured by a first real estate mortgage and first assignment of all leases and rent of a certain property. The loan is to be used to fund tenant improvements and other building capital costs for the property. LMCDC may borrow at prime rate (8.25% at December 31, 2006). At December 31, 2006 \$150,000 was drawn on the line. The line of credit matured on August 29, 2007 and was paid in full. The interest rate was at 8.25% at December 31, 2006.

On July 1, 2007, MetaCyte entered into an agreement with the Louisville Metro government to borrow up to \$388,000 in the form of a convertible note. The note bears interest at a rate of 8% per annum, and may be converted, at the option of Metro government into one third of the available units of MetaCyte Equity Holdings, LLC.

### 3. Subsequent Events

In June, 2008, LMCDC paid in full the promissory note dated June 2003. \$826,000 of the promissory note was paid in cash and the remaining \$3,574,000 was paid in the form of a Deed of Assignment of Note, Mortgage and Loan Document with the Foundation.

In July, 2008, MetaCyte entered into a \$958,964 promissory note agreement with UHI. The promissory note bears interest at the Prime Rate, with a lump sum payment due on or before July 28, 2011.

#### c. OMHS/U of L Cancer Research Center, Inc.

In March 2007, the OMHS/U of L Cancer Research Center, Inc. (the Center) was incorporated with the purpose including, but not limited to, promotion and implementation of cancer research and drug development projects through, among other things, ownership and operation of a cancer research and treatment center in Owensboro, Kentucky.

Although the joint venture is owned 50% by Owensboro Medical Health System, Inc. and 50% by the University, the University has control of the Board of Directors of the Center. The University has determined that the Center should be a discretely presented component unit; however, as of June 30, 2008 and 2007 the Center does not have material operations to be presented.

## 10. Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the "Fund"); (2) Sovereign Immunity and the State Board of Claims or, (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance, or participation in insurance risk retention groups.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between \$250 and \$300,000 per occurrence. Losses in excess of \$300,000 are insured by commercial carriers up to \$200 million per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is

limited to \$200,000 for any one person and \$350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2007 to 2008. Settlements have not exceeded insurance coverage during the past three years.

University medical and dental students, residents, and most School of Medicine faculty are insured against medical malpractice by a captive liability insurer. Other faculty, agents, and certain non-physician employees are insured against medical malpractice by commercial insurance. The University also has the benefit of an excess coverage fund established by the Commonwealth of Kentucky.

The University is self-insured for the medical benefits provided to employees. The cost of such self-insured benefits provided during the years ended June 30, 2008 and 2007, respectively, was approximately \$39.3 million and \$35.0 million, including \$3.4 million and \$3.5 million accrued for estimated claims incurred but not reported.

#### 11. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 380,602	\$ 357,048
Employee benefits	91,090	80,021
Utilities	17,249	15,687
Scholarships and fellowships	35,945	33,137
Depreciation	35,907	34,404
Supplies and other services	179,468	162,622
	<u>\$ 740,261</u>	<u>\$ 682,919</u>

#### 12. Retirement Plans

##### a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. This plan was established by the University and approved by the Board of Trustees. Eligible employees not contributing to the plan are entitled to a 7.5 percent of base salary contribution on their behalf by the University. Employees wishing to contribute are allowed to contribute 2.5 percent of base salary and are entitled to up to 10.0 percent base salary contribution on their behalf by the University. All payments are vested immediately, and the contracts with the providers are owned by the individual employees. Other information relating to this plan for 2008 and 2007 is presented as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Total University payroll	\$ 389,184	\$ 363,471
Total payroll covered by the plan	373,307	349,967
Employee contributions	20,787	19,434
University contributions	26,040	24,494

b. Prior Service Defined Benefit Program

Effective July 1, 1977, the University entered into an agreement with Teachers Insurance Annuity Association (TIAA) to fund, over approximately 30 years, the prior service defined benefit program for both currently retired and eligible actively employed participants. There were no annual required contributions for the year ended June 30, 2008 and June 30, 2007. Subsequent annual contributions under this agreement are subject to periodic actuarial re-evaluations to reflect changes in the consumer price index, interest rates and group experience performance.

The most recent TIAA comparison of the accumulated plan benefits and plan net assets, as determined by TIAA, as of June 30, 2008 and 2007 are on the following page (in thousands):

	<u>2008</u>	<u>2007</u>
Actuarial present value of non-vested accumulated plan benefits	\$ 3,087	\$ 3,551
Net assets available for benefits	\$ 3,304	\$ 3,601
Net pension surplus	\$ (217)	\$ (50)
Funded ratio	107%	101%

The actuarial present value of plan benefits is non-vested because the plan and benefits provided there under are at all times at the discretion of the University. The net pension surplus represents the amount of net assets available for benefits in excess of the actuarial liability. The assumed rate of return used to determine the present value of accumulated non-vested benefits was 6.0 percent for each of the years June 30, 2008 and 2007, for preretirement and postretirement periods.

13. Postemployment Healthcare Benefits

a. Plan Description

University personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. To be eligible for the Plan, a retired employee must be the earlier of the attainment of age 60 with seven years of service in eligible faculty or staff status, or the date that the sum of the employees age and years of regular service of not less than 80% full-time equivalent at the University equals or exceeds 75.

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. During the year ended June 30, 2008, the University contributed approximately \$1.0 million, approximately 50 percent of total premiums. Retired Plan members under age 65 receiving benefits contributed approximately \$1.0 million, approximately 50 percent of total premiums, through their required monthly contributions according to the schedule on the following page:

	<u>PPO</u>	<u>EPO</u>	<u>HRA High</u>	<u>HRA Low</u>	<u>Out of Area</u>
Employee	\$ 270	\$ 304	\$ 178	\$ 119	\$ 286
Employee and Spouse	\$ 581	\$ 653	\$ 431	\$ 321	\$ 586

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the year ended June 30, 2008, the University contributed \$1.0 million for Medicare-eligible retirees.

c. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (AAL) over a period not to exceed thirty years. The components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation are as follows (in thousands):

	<u>2008</u>
Normal Cost	\$ 4,687
AAL Amortization	3,427
Interest on above	243
Annual Required Contribution	<u>8,357</u>
Contributions made	(2,020)
Increase in net OPEB obligation	<u>6,337</u>
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>6,337</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2008 were as follows:

Fiscal Year	Annual	Percentage of	Net OPEB
<u>Ended June 30,</u>	<u>OPEB Cost</u>	<u>Annual OPEB</u>	<u>Net OPEB</u>
<u>2008</u>	<u>\$ 8,357</u>	<u>Cost Contributed</u>	<u>Obligation</u>
		24%	\$ 6,337

d. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$69.2 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$69.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$345.6 million, and the ratio of the UAAL to the covered payroll was 20 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return (net of administrative expenses) which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2008 was 29 years.

14. Affiliation and Lease Agreements

a. University Medical Center, Inc. Affiliation and Lease Agreement

Effective February 6, 1996, the University entered into an affiliation agreement with Jewish Hospital Healthcare Services, Inc., now Jewish Hospital and St. Mary's Healthcare Services, Inc. (Jewish Hospital), Alliant Health System, Inc., now Norton Healthcare Inc, (Norton) and University Medical Center, Inc. (UMC) for the joint operation of the University of Louisville Hospital (Hospital). The term of the affiliation and lease agreements is twenty years with two potential five-year renewal terms. Effective July 1, 2007, Jewish Hospital and Norton withdrew from the UMC and the affiliation agreement.

This agreement provides for, among other things, UMC to pay the University its annual Surplus Cash Flow calculated in a statement of cash flows prepared by UMC in accordance with accounting principles generally accepted in the United States of America. Revenues reflected in the accompanying financial statements relative to this item were approximately \$11.0 million and \$10.0 million for the fiscal years ended June 30, 2008 and 2007, respectively, and are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net assets. Payments of surplus cash flows shall be made by UMC to the University (a) on January 1 and July 1 of each year of the affiliation agreement based on a good faith estimate of half the surplus cash flow existing on such date, and (b) within one hundred twenty (120) days following the end of the UMC fiscal year based on surplus cash flow as reflected on the audited financial statements (less amounts previously paid by UMC in the semi-annual estimated payments).

The agreement also calls for, among other things, UMC to provide funding (salary, benefits and malpractice coverage) for certain full-time equivalent resident positions over the term of

the affiliation agreement. Annually, UMC determines the number of resident positions it will fund based upon (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital and (c) the clinical load at the Hospital and related facilities. Funding levels for each of the years ended June 30, 2008 and 2007 were approximately \$25.0 million and \$23.2 million respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net assets.

The Commonwealth and the University as lessor entered into a lease agreement with UMC to lease the Hospital. The annual lease payment was \$5.0 million through February 7, 2001. At that time, it escalated by \$500,000 annually and will continue to escalate every five years thereafter up to \$7.5 million. Included in the agreement is a provision that \$5.0 million of the annual rent payment will flow to the Quality and Charity Care Trust. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was \$0.8 million for each of the years ended June 30, 2008 and 2007, and is included clinical services and practice plan revenues in the statement of revenues, expenses, and changes in net assets.

The accompanying statements of net assets as of June 30, 2008 and June 2007 include approximately \$10.0 million and \$14.7 million, respectively, in accounts receivable representing amounts due from UMC pursuant to the above agreements.

In June 1997, UMC, pursuant to the Affiliation and Lease Agreement, issued \$85 million of Health Facilities Revenue Bonds (the Series 1997 Bonds), which were secured in part by a pledge of the revenues of the Hospital. Prior to the termination of the Affiliation Agreement, the University is not responsible for the payment of the principal, premium, if any, or interest on the Series 1997 Bonds. Pursuant to the terms of the Affiliation Agreement, upon the effective date of the termination of the Affiliation Agreement, the University has agreed, to the extent permitted by law, to pay all debt, including the Series 1997 Bonds of UMC that was approved by the Board of Directors of UMC prior to the termination of the Affiliation Agreement or incurred in the ordinary course of business. In such event, the security interest in the pledged revenues shall remain in effect, and the Series 1997 Bonds shall be payable solely from the pledged revenues and amounts, if any, appropriated by the Kentucky legislature.

In the opinion of counsel to the University, the security interest in the pledged revenues of the Hospital granted to the University is enforceable in accordance with its terms.

The laws of Kentucky currently prohibit agencies of the state, such as the University, from incurring general obligation debt without the prior approval of the electorate. Therefore, the unconditional obligation of the University to pay the debt of UMC may be unenforceable. To the extent pledged revenues are insufficient to pay the obligations secured thereby (including the payments with respect to the Series 1997 Bonds), such payments may be made only from funds, if any, appropriated by the Kentucky legislature for such purposes pursuant to its biennial budget process. Under the Affiliation Agreement, the University has agreed to use its best efforts to obtain any and all approvals and authorizations (including legislative appropriations) which may be required to undertake the payment of UMC's debt, including its indebtedness with respect to the Series 1997 Bonds. No assurance can be given that the Kentucky legislature will appropriate funds for the payment of debt service on the Series 1997 Bonds.

The above agreements address the patient care needs of the Hospital's inpatients. The University's School of Medicine operates various clinics, which generate patient care revenues from the treatment of outpatients as well as laboratories that serve both inpatients and outpatients.

b. Medical School Practice Association

The Medical School Practice Association (MSPA), doing business as University Physician's Associate, provides and administers the medical care of patients at the clinics and the medical educational missions of the University. Additionally, MSPA performs the credentialing service for the physicians and contracts with the insurance groups on behalf of the Physician groups.

The Board of Directors consists of the Chairmen of the departments of the University of Louisville School of Medicine. However, the University is not able to impose its will on the Boards of the organization. It does not influence the normal operations of the MSPA or the clinics it operates. Therefore, the MSPA is not included in the financial statements of the University.

c. Quality and Charity Care Trust Transfers for Hospital Operations

In April 1996, the University entered into the Quality and Charity Care Trust agreement with the Commonwealth of Kentucky, Jefferson County, the City of Louisville, and the University Medical Center for the purpose of providing medically necessary hospital care, both inpatient and outpatient, to indigent patients in the Louisville area.

The University established an affiliated corporation known as the Quality and Charity Care Trust, Inc. to receive government funds and disburse them for Trust operations in accordance with the terms of the agreement.

The Trust, funded by the Commonwealth and the local governments, is charged with the obligation to provide for the health care needs of economically disadvantaged persons who have historically been ministered to by the University as a public service in the course of its teaching programs.

The University and the Commonwealth selected UMC, a Kentucky non-profit corporation, as the provider of the health care services through the Hospital.

Funding of \$24.4 million and \$23.6 million for the years ended June 30, 2008 and 2007, respectively, provided by the government is held for the Trust by the University and paid to UMC as specified in the Trust agreement. This funding is not included in the statements of revenues, expenses and changes in net assets as it is a pass-through to UMC.

d. Cardiovascular Innovation Institute, Inc.

In October 2003, the University of Louisville and Jewish Hospital Cardiovascular Innovation Institute (the Institute) was incorporated with the purpose including, but not limited to, the development and operation of a world-class institute to test, clinically evaluate, and develop heart assist devices, biosensors, and related technologies to improve the care for patients with heart disease.

The University entered into a Master Facility Agreement with Jewish Hospital to set forth the principles regarding the facility to support the Institute. The Master Facility Agreement calls for a research building to be jointly built by the University and Jewish Hospital on land owned by the University. Jewish Hospital will transfer the use of a portion of the building, through a lease or other contract, to the Institute or to the University, for exclusive use by the Institute. The building was completed in December 2006.

## 15. Commitments and Contingencies

### a. Commitments

At June 30, 2008 and June 30, 2007, the University had approximately \$60.0 million and \$52.6 million respectively in encumbrances outstanding for future expenditures.

### b. Litigation

The University has been named as defendant in several lawsuits, including several actions initiated by patients involving alleged malpractice. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance coverages and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University beyond the amounts already provided.

During 1989, the Kentucky Supreme Court ruled that the Board of Claims statute cannot bar lawsuits against employees of the Commonwealth who can be held personally liable for their own negligent acts. Certain of the University's employees have lawsuits pending against them for medical negligence claims. Any judgments on such claims are not the liability of the University, although the University may settle or pay judgments from the statutory fund established per KRS 156.895 and 164.890 - 164.895, or per liability insurance purchased for its employees and agents.

### c. Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

### d. Operating Lease Obligations

The University has entered into operating leases related to academic, research and facilities. The University has two operating lease agreements related to use of athletic facilities. Under these lease agreements, the University's rights have been assigned to the Association.

The University has an agreement with the Kentucky State Fair Board (KSFB) for the use of a basketball arena. As discussed in Note 16 – Subsequent Events, the Association has entered into a lease agreement with the Louisville Arena Authority, Inc. (Arena Authority) related to the Association's use of the arena for the men's and women's basketball programs. The Association has entered into a Termination Agreement with KSFB that allows the Association to terminate the existing lease without penalty when the basketball teams move to the Arena.

Annual lease payments are equal to the greater of 10 percent of gross ticket sales or a minimum lease amount of \$5,000 per game and annual lease payments for private suites are 9.75 percent of the first \$35,000 of gross rental income and 25 percent thereafter. Total lease payments during each of the years ended June 30, 2008 and 2007 were approximately \$1.2 million.

The University also has an agreement with the KSFBS for use of a football stadium. Due to the construction of an on-campus stadium, the original lease was amended and restated effective November 1, 1997 to allow for its use by the baseball and field hockey programs.

During the fiscal year ended June 30, 2006, the Association entered into a lease agreement with Central Station, LLC (Central Station) for use of the Central Station Office Building. The lease has an initial term of 21 years. Annual lease payments are approximately \$47,000. In addition, the Association paid approximately \$799,000 of lease payments in advance, of which \$695,000 is still outstanding (\$38,000 in other current assets and \$657,000 in other long-term assets) as of June 30, 2008. The prepayment is being amortized evenly over the life of the lease. Total lease expenses during the years ended June 30, 2008 and 2007 amounted to approximately \$88,000 and \$83,000, respectively, of which \$38,000 in each year, relates to the amortization of prepaid rent. Subsequent to June 30, 2008, the Foundation purchased the building from Central Station; therefore, in future years the lease will be with a related party.

The University's annual minimum lease payments are due as follows (in thousands):

<u>For the year ended June 30,</u>	<u>Lease Payment Due</u>
2009	\$ 1,610
2010	1,413
2011	720
2012	720
2013	114
2014 - 2018	596
2019 - 2023	626
2024 - 2028	277
2029 - 2033	57
2034 - 2038	46
Future minimum lease payments	<u>\$ 6,179</u>

## 16. Subsequent Events

### a. University of Louisville General Receipts Bonds, 2008 Series A

The University issued \$86.1 million of University of Louisville, General Receipts Bonds, 2008 Series A at a net interest cost of 4.4 percent. Delivery of the 2008 Series A bonds was on July 24, 2008. The bond proceeds will be used for the construction of a second Health Sciences Center parking garage, to fully fund the construction of a Clinical and Translational Research Building, and for renovation of the School of Dentistry.

### b. Metro Government Mortgage Revenue Refunding and Improvement Bonds Series 2008

In July 2008, the Louisville Metro Government issued \$39.8 million of Mortgage Revenue Bonds 2008 Series A and \$43.5 million of Mortgage Revenue Bonds 2008 Series B at a combined net interest cost of 4.2 percent. The bond proceeds were used to retire on September 1, 2008 the outstanding County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa

John's Cardinal Stadium (the Prior Project). Additional funds will be used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project.

c. Louisville Arena Authority, Inc. Lease

In July 2008, the Association entered into a lease agreement with the Louisville Arena Authority, Inc. (Arena Authority). The lease has an initial term of 36 years. Annual lease payments are equal to the greater of 10 percent of gross ticket sales or a minimum lease amount of \$10,000 per game for men's basketball games; the greater of 5 percent of gross ticket sales or a minimum of \$5,000 for any other Association sponsored event; and, as payment for private suites, 12 percent of net private suite revenue.

Under the terms of the lease, the Association will receive payment from the Arena Authority as follows: (a) 50 percent of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25 percent of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50 percent of all rental/commission payments received in connections with the gift shop and its operations, and 50 percent of any additional merchandise revenue received from any source other than the gift shop; (c) 50 percent of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3 percent of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage.

The Association's obligations are expected to commence on or about November 1, 2010.

d. Louisville Medical Center Development Corporation

In September 2008, the LMCDC Board of Directors amended the Articles of Incorporation to reflect the assignment of the University's interest as a Member of LMCDC to the Foundation, leaving the Foundation and the University Medical Center, Inc. as the two Members. Additionally, the Board of Directors authorized the transfer of substantially all assets and liabilities of LMCDC to the Foundation, and then subsequently to the Foundation's affiliate, Nucleus: Kentucky's Life Sciences and Innovation Center, LLC (Nucleus). This transfer has not yet taken place.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress**  
**For Other Postemployment Benefits**  
**(in thousands)**

<b>Actuarial Value Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a) / c</b>
7/1/2007	\$ -	\$ 69,179	\$ 69,179	0%	\$ 345,636	20%