

**UNIVERSITY OF LOUISVILLE  
FOUNDATION, INC. AND AFFILIATES**

**Accountants' Report and Consolidated Financial Statements**

**June 30, 2010 and 2009**

**University of Louisville Foundation, Inc. and Affiliates**

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## Independent Accountants' Report

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

We have audited the accompanying consolidated statements of financial position of the University of Louisville Foundation, Inc. and Affiliates (Foundation) as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. 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 opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

September 27, 2010

BKD, LLP

**University of Louisville Foundation, Inc. and Affiliates**  
**Consolidated Statements of Financial Position**  
**June 30, 2010 and 2009**  
(In Thousands)

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 16,622	\$ 13,152
Accounts, notes, and accrued interest receivable	2,091	4,470
Loan receivable from the University of Louisville Athletic Association, Inc.	2,205	2,705
Prepaid expenses and other	1,469	2,084
Contributions receivable	37,395	39,198
Investments	653,329	599,040
Restricted cash	-	5,259
Funds held in trust by others	37,934	34,847
Restricted investments	5,557	5,570
Other assets	499	536
Capital assets, net	120,468	114,330
Total assets	\$ 877,569	\$ 821,191
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 7,118	\$ 5,789
Funds held in trust for others	45,045	41,518
Due to University of Louisville	12,552	29,836
Other	15,735	14,472
Bonds and notes payable	85,448	83,940
Total liabilities	165,898	175,555
 Net assets:		
Unrestricted:		
Unrestricted - designated	286,976	245,032
Unrestricted - undesignated	15,999	20,557
Total unrestricted	302,975	265,589
Temporarily restricted	45,164	43,577
Permanently restricted	363,532	336,470
Total net assets	711,671	645,636
Total liabilities and net assets	\$ 877,569	\$ 821,191

See notes to consolidated financial statements

**University of Louisville Foundation, Inc. and Affiliates**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2010 and 2009**  
(In Thousands)

	<u>Unrestricted</u>		<u>Temporarily restricted</u>		<u>Permanently restricted</u>		<u>Totals</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES, GAINS AND OTHER SUPPORT</b>								
Gifts	\$ 26,051	\$ 26,210	\$ 134	\$ 14,687	\$ 7,364	\$ 8,037	\$ 33,549	\$ 48,934
Research Challenge Trust Fund	-	55	-	-	16,167	-	16,167	55
Investment income	1,224	1,838	-	-	-	-	1,224	1,838
Endowment income	7,376	7,275	223	241	9	-	7,608	7,516
Net realized and unrealized gain/(loss) on investments	77,458	(144,354)	5,332	(6,865)	2,955	(11,975)	85,745	(163,194)
Residence hall income	6,599	6,353	-	-	-	-	6,599	6,353
Real estate income	1,617	986	-	-	-	-	1,617	986
Actuarial (loss)/gain on annuity and trust obligations	-	-	(1,123)	1,811	-	-	(1,123)	1,811
Other revenues	2,243	4,192	-	-	-	-	2,243	4,192
Net assets released from restrictions:								
Satisfaction of program restrictions	3,488	1,595	(3,488)	(1,595)	-	-	-	-
Reclassifications	(1,076)	456	509	(75)	567	(381)	-	-
Total revenues, gains and other support	<u>124,980</u>	<u>(95,394)</u>	<u>1,587</u>	<u>8,204</u>	<u>27,062</u>	<u>(4,319)</u>	<u>153,629</u>	<u>(91,509)</u>
<b>EXPENSES</b>								
Contributions to various University of Louisville departments	4,760	2,298	-	-	-	-	4,760	2,298
Payments on behalf of the University of Louisville for:								
Instruction	4,577	5,278	-	-	-	-	4,577	5,278
Research	17,554	22,699	-	-	-	-	17,554	22,699
Public service	2,835	3,028	-	-	-	-	2,835	3,028
Academic support	11,052	11,486	-	-	-	-	11,052	11,486
Student services	228	183	-	-	-	-	228	183
Institutional support	11,864	10,176	-	-	-	-	11,864	10,176
Operation and maintenance of plant	3,138	2,598	-	-	-	-	3,138	2,598
Scholarships/fellowships	8,311	7,831	-	-	-	-	8,311	7,831
Interest expense	3,294	2,724	-	-	-	-	3,294	2,724
Residence hall operations, including depreciation	6,265	5,513	-	-	-	-	6,265	5,513
Real estate operations, including depreciation	4,797	3,730	-	-	-	-	4,797	3,730
General and administrative, including fundraising	8,919	9,059	-	-	-	-	8,919	9,059
Total expenses	<u>87,594</u>	<u>86,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,594</u>	<u>86,603</u>
Net change in assets	<u>37,386</u>	<u>(181,997)</u>	<u>1,587</u>	<u>8,204</u>	<u>27,062</u>	<u>(4,319)</u>	<u>66,035</u>	<u>(178,112)</u>
<b>Net assets at beginning of year</b>	<u>265,589</u>	<u>447,586</u>	<u>43,577</u>	<u>35,373</u>	<u>336,470</u>	<u>340,789</u>	<u>645,636</u>	<u>823,748</u>
<b>Net assets at end of year</b>	<u>\$ 302,975</u>	<u>\$ 265,589</u>	<u>\$ 45,164</u>	<u>\$ 43,577</u>	<u>\$ 363,532</u>	<u>\$ 336,470</u>	<u>\$ 711,671</u>	<u>\$ 645,636</u>

See notes to consolidated financial statements

**University of Louisville Foundation, Inc. and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**  
**(In Thousands)**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase/(decrease) in net assets	\$ 66,035	\$ (178,112)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net realized and unrealized (gains)/losses on investments	(85,745)	163,194
Depreciation and amortization expense	4,301	4,182
Loss on defeance of bonds payable	921	-
Convertible note payable	-	(400)
Loss on disposals of capital assets	8	24
Transfer of capital assets to affiliates	293	262
Contributions restricted for long-term investment	(23,531)	(8,037)
Net additions to annuitant & unitrust funds	418	100
Change in present value of annuitant & unitrust payments	705	(1,911)
Change in assets and liabilities:		
Accounts, notes, and accrued interest receivable	2,379	391
Prepaid expenses and other	303	221
Contributions receivable	1,803	(14,490)
Other assets	37	(282)
Accounts payable	1,329	1,002
Funds held in trust for others	786	(4,727)
Other liabilities	836	5,465
Due to University of Louisville	(17,284)	21,017
Net cash used in operating activities	(46,406)	(12,101)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(159,921)	(171,851)
Sales of investments	191,044	123,723
Purchases of capital assets	(10,697)	(45,228)
Payments received on loan receivable from University of Louisville Athletic Association, Inc.	500	500
Net cash provided by/(used in) investing activities	20,926	(92,856)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for investment in endowment	23,531	8,037
Payments to annuitants	(696)	(767)
Proceeds from issuance of bonds and notes payable	38,044	27,692
Principal payments of bonds and notes payable	(36,517)	(765)
Payment of bond issuance costs	(671)	-
Net cash provided by financing activities	23,691	34,197
Net decrease in cash and cash equivalents	(1,789)	(70,760)
Cash and cash equivalents at beginning of year	18,411	89,171
Cash and cash equivalents at end of year	\$ 16,622	\$ 18,411
Supplemental cash flow data:		
Cash paid for interest	\$ 2,831	\$ 2,799

See notes to consolidated financial statements

## University of Louisville Foundation, Inc. and Affiliates

### Notes to Consolidated Financial Statements

June 30, 2010 and 2009

#### 1. Organization and Summary of Significant Accounting Policies

##### a. Organization

The accompanying consolidated financial statements include the balances and transactions of the University of Louisville Foundation, Inc. (ULF), ULH, Inc. (ULH), University Holdings, Inc. (UHI), University of Louisville Development Corporation, LLC (ULDC), Nucleus: Kentucky's Life Science and Innovation Center, LLC (Nucleus), AAF-Louisville, LLC (AAF), MetaCyte Business Labs, LLC. (MetaCyte), KYT-Louisville, LLC (KYT), and Phoenix Place – Louisville, LLC (PPL) (collectively “Foundation”). All material intercompany balances and transactions have been eliminated in consolidation. ULF has been designated by the University of Louisville (the University) to receive funds derived from gifts and other sources, including funds held in trust by others. The Foundation is presented in the financial statements of the University as a discretely presented component unit.

As directed by its Board of Directors, the Foundation transfers funds to the University in satisfaction of donor restrictions. In addition, a portion of the unrestricted resources of the Foundation provides support for a variety of University activities.

ULH began operations on April 23, 2001 and is affiliated with ULF through certain common management and trustees. ULH leases land and issues revenue bonds for student housing purposes and receives, retains and disposes of real estate, and manages and operates the student housing properties it owns.

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 ULF. UHI provides oversight and management support to various affiliated entities. UHI is affiliated with ULF through certain common management and directors.

ULDC is a limited liability company formed in September 2007, whose sole member is ULF. Its purpose is 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). Its purpose is to integrate University resources, including life sciences, with those of the region, specifically as it relates to building and maintaining a research park in downtown Louisville. ULF is the sole member of Nucleus and UHI is the Manager.

In October 2008, ULF assumed substantially all of the assets and liabilities of the Louisville Medical Center Development Corporation (LMCDC) and subsequently sold them to Nucleus for no consideration. LMCDC was a discretely presented component unit of the University.

The activity of Nucleus is included in the consolidated statements of financial position as of June 30, 2010 and 2009 and in the consolidated statements of activities and consolidated statements of cash flows for the years ended June 30, 2010 and 2009.

MetaCyte is a limited liability company formed in October 2008. Its purpose is to identify and support commercially promising health science discoveries in the region. Metacyte was a former subsidiary of LMCDC. However, during the transfer of assets and liabilities between ULF and Nucleus, the assets and liabilities related to MetaCyte were segregated into a separate company. ULF is the sole member of MetaCyte and UHI is the Manager.

MetaCyte Equity Holdings, LLC is a limited liability company formed in February 2006. Its purpose is to hold the equity shares obtained by MetaCyte through development with start-up corporations. As of June 30, 2010 no equities have been transferred and MetaCyte Equity Holdings, LLC has had no activity since inception.

AAF is a limited liability company formed in February 2008, whose sole member is ULF. Its purpose is to develop and manage the real estate operations of Cardinal Station. UHI is the Manager of AAF.

KYT is a limited liability company formed in November 2008, whose sole member is ULF. Its purpose is to develop and manage the real estate purchase and development of property adjacent to the University. UHI is the Manager of KYT.

PPL is a limited liability company formed in April 2009, whose sole member is ULF. Its purpose is to develop and manage the real estate purchase and development of property near the health sciences campus of the University. UHI is the Manager of PPL.

b. Cash and Cash Equivalents

The Foundation considers all liquid investments (not held for long-term purposes) with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, cash equivalents consisted primarily of money market funds.

The financial institutions holding the Foundation's cash accounts are participating in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Effective December 31, 2010 through December 31, 2012, deposits held in all noninterest-bearing transaction accounts will be fully insured regardless of the amount in the account, at all FDIC-insured institutions.

Effective July 21, 2010, the FDIC insurance limits were permanently increased to \$250,000. At June 30, 2010 the Foundation's interest-bearing cash accounts exceeded federally insured limits by approximately \$14.3 million.

c. Restricted Cash

The Foundation classifies all cash held by investment managers of the Combined Endowment Fund as restricted cash. The majority of this cash typically results from the liquidation of investments due to a change in investment managers and is reinvested within

seven days. Other amounts result from the receipt of new endowment gifts or cash distributions from the investments and are reinvested in accordance with the investment policy.

d. Investments and Investment Return

Investments in marketable debt and equity securities are stated at current market value. Investments in real estate through limited partnerships are stated at appraised market values, while other real estate investments are stated at cost on the date of acquisition or fair market value at date of receipt in the case of gifts. Securities not publicly traded are stated at cost, which approximates market. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the consolidated statements of activities.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

e. Capital Assets

Capital assets are stated at cost or estimated market value at date of receipt from donors. The provision for depreciation on capital assets is calculated using the straight-line method based on their estimated useful lives.

The Foundation 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.

ULH 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, 2010 and 2009, ULH did not capitalize any interest.

f. Deferred Revenue

Deferred revenue, which is included in other liabilities in the consolidated statements of financial position, consists of revenue related to a lease of land by the Foundation, and is recognized evenly over the life of the lease.

g. Unrestricted Net Assets

Net appreciation on endowment funds is reported as unrestricted net assets, unless such net appreciation has been restricted by the donor or by law. Market appreciation on unrestricted endowment funds is included in unrestricted net assets in the accompanying consolidated financial statements. In those cases where a donor has placed restrictions on the use of endowment income, any related net appreciation is also subject to the same restriction and is reported as such.

h. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those which have donor-imposed restrictions that will expire in the future, when either the time restriction or purpose restriction has been met, and permanently restricted net assets are those which have donor-imposed restrictions which do not expire.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donor-imposed restricted contributions and endowment income are reported as unrestricted support if the restrictions are met in the same period as the funds are received.

i. Unrestricted Bequests

The Foundation follows the policy of designating all unrestricted bequests of \$100,000 or greater as funds functioning as endowments.

j. 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.

k. Market Risk and Uncertainties

The Foundation invests in various corporate debt, equity and mutual fund securities, among other investments. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the consolidated financial statements.

l. In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of library materials and other educational equipment and supplies from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase gift revenue by a like amount. The Foundation received approximately \$1.7 million and \$1.3 million of in-kind gifts for the years ended June 30, 2010 and 2009, respectively.

m. Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant and scholarships/fellowships categories based on donor intent and other methods.

n. Subsequent Events

Subsequent events have been evaluated through September 27, 2010, which is the date the consolidated financial statements were available to be issued.

o. Reclassifications

Certain reclassifications have been made in the 2009 consolidated financial statements to conform to the 2010 presentation. These reclassifications had no effect on the change in total net assets.

p. Tax Status

ULF and ULH have received favorable determination letters from the Internal Revenue Service exempting them from federal income taxes under §501(c)(3) of the Internal Revenue Code and a similar provision of state law. UHI is a non-profit corporation. UHI has filed a tax determination request and is waiting for a reply.

ULDC, Nucleus, AAF, KYT, and PPL are single-member limited liability corporations of the Foundation, who are considered disregarded entities for tax purposes. The Foundation is subject to federal income tax on any unrelated business taxable income. MetaCyte, a single-member limited liability corporation of the Foundation, has elected corporate status for tax purposes, and pursuant to this election, is subject to corporate tax income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examination by tax authorities prior to fiscal year 2007.

q. Uncertain Tax Positions

Financial Accounting Standards Board (FASB) issued ASC Topic 740 – Income Taxes (Topic 740), which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken in a tax return. The Foundation adopted Topic 740 on July 1, 2009. The adoption of Topic 740 did not result in an adjustment to the consolidated financial statements.

2. Due to the University

In accordance with the Foundation's agency agreement with the University, the University receives and disburses monies on behalf of the Foundation. The net amount of these receipts and disbursements is recorded as a due to or from the University in the consolidated statements of financial position. Generally, the receivable or payable is cleared within the subsequent month; however, no formal agreement governs the time period in which payments are to be made.

Additionally, in July 2001, the University of Louisville Athletic Association, Inc. (Association) obtained a \$347,000 unsecured, noninterest 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, 2010 and 2009 and is included in Due to the University in the consolidated statements of financial position.

3. Loan Receivable from the Association

In January, 1999, the Foundation made an \$8.5 million unsecured, noninterest bearing loan to the Association for the construction of Cardinal Park, due upon collection of contributions. The Association's intent is to repay the \$8.5 million loan with future contributions and gifts. For each of the years ended June 30, 2010 and 2009, the Association repaid \$500,000 leaving an outstanding loan balance of approximately \$2.2 million and \$2.7 million as of June 30, 2010 and 2009, respectively.

4. Contributions Receivable

Contributions receivable are discounted, using rates on risk-free obligations ranging from 1.1% to 6.8% for 2010 and 2009. Contributions receivable, which are all temporarily restricted, as of June 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 21,234	\$ 20,101
One to four years	26,100	28,996
Greater than four years	5,709	5,450
Allowance for doubtful accounts	(12,173)	(11,068)
Unamortized discount	(3,475)	(4,281)
Net contributions receivable	<u>\$ 37,395</u>	<u>\$ 39,198</u>

Conditional promises of gifts depend on the occurrence of a specific and uncertain event. The Foundation has not recorded these types of gifts in the consolidated financial statements. As of June 30, 2010 and 2009 the approximate fair market value of these conditional gifts is as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Bequests	\$ 83,769	\$ 78,391
Other	3,717	3,050
Total	<u>\$ 87,486</u>	<u>\$ 81,441</u>

5. Endowments

The Foundation's endowment consists of approximately 1,300 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's board of directors has interpreted the Uniform Management of Institutional Funds Act (UMIFA), adopted in Kentucky in 1976 and located at KRS 273.510 to 273.590 as requiring preservation of the "historic dollar value" of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as unrestricted or temporarily restricted net assets, depending on donor stipulations. In July 2010, the Commonwealth of Kentucky will adopt the Uniform Prudent Management of Institutional Funds Act, which also allows the total return method of investment management.

The composition of net assets by type of endowment fund at June 30, 2010 and 2009 was (in thousands):

<b>2010</b>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 164,270	\$ 11,238	\$ 363,532	\$ 539,040
Board-designated endowment funds	105,420	-	-	105,420
	<u>\$ 269,690</u>	<u>\$ 11,238</u>	<u>\$ 363,532</u>	<u>\$ 644,460</u>
<b>2009</b>				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 125,134	\$ 5,218	\$ 336,470	\$ 466,822
Board-designated endowment funds	105,014	-	-	105,014
	<u>\$ 230,148</u>	<u>\$ 5,218</u>	<u>\$ 336,470</u>	<u>\$ 571,836</u>

Changes in endowment net assets for the years ended June 30, 2010 and 2009 were (in thousands):

	<b>2010</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 230,148	\$ 5,218	\$ 336,470	\$ 571,836
Investment return:				
Investment and endowment income	8,036	190	9	8,235
Net appreciation	75,891	5,929	2,955	84,775
Total investment return	83,927	6,119	2,964	93,010
Contributions	571	4	23,531	24,106
Appropriation of endowment assets for expenditures	(45,514)	(103)	-	(45,617)
Other changes	558	-	567	1,125
Endowment net assets, end of year	<u>\$ 269,690</u>	<u>\$ 11,238</u>	<u>\$ 363,532</u>	<u>\$ 644,460</u>
	<b>2009</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 412,076	\$ 10,399	\$ 340,789	\$ 763,264
Investment return:				
Investment and endowment income	7,974	198	-	8,172
Net depreciation	(155,116)	(5,320)	(11,975)	(172,411)
Total investment return	(147,142)	(5,122)	(11,975)	(164,239)
Contributions	807	3	8,037	8,847
Appropriation of endowment assets for expenditures	(36,174)	11	-	(36,163)
Other changes	581	(73)	(381)	127
Endowment net assets, end of year	<u>\$ 230,148</u>	<u>\$ 5,218</u>	<u>\$ 336,470</u>	<u>\$ 571,836</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2010 and 2009 consisted of (in thousands):

	<u>2010</u>	<u>2009</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UMIFA	<u>\$ 363,532</u>	<u>\$ 336,470</u>
Temporarily restricted net assets - term endowment funds	<u>\$ 11,238</u>	<u>\$ 5,218</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the “historic dollar value” level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to \$8.5 million and \$13.2 million at June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds that the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds.

Under the Foundation’s policies, endowment assets are invested in a manner that is intended to produce results that achieves a minimum net total return which is equal to the Foundation’s spending rate plus inflation without the assumption of excessive investment risk. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within acceptable risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund’s average fair value over the prior three years through the calendar year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. 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 three-year moving average of the Gross Domestic Product (GDP) Deflator) plus the average level of spending from the Combined Endowment Fund. The annual return for the Combined Endowment Fund was 15.2% and -22.2% in 2010 and 2009, respectively.

The amount available for spending under the policy was approximately \$25.6 million and \$34.2 million for the years ended June 30, 2010 and 2009, respectively, of which approximately \$27.7 million and \$31.2 million was actually expended for the years then ended.

This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

6. Investments and Investment Income

Investments as of June 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Investment in partnerships and funds of funds	\$ 354,976	\$ 299,274
Mutual funds	73,798	79,975
Marketable alternatives	123,435	92,429
Preferred and common stock	67,800	83,956
Corporate bonds	23,539	24,679
U.S. government securities	697	9,579
Certificate of deposit	7,000	7,000
Land and buildings	1,479	1,543
Annuities	605	605
Total investments	<u>\$ 653,329</u>	<u>\$ 599,040</u>

Total investment return is reflected in the statements of activities as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 8,832	\$ 9,354
Net realized and unrealized gains/(losses) on investments reported at fair value	85,808	(163,131)
Net realized gains/(losses) on other investments	(63)	(63)
	<u>\$ 94,577</u>	<u>\$ (153,840)</u>

The Foundation invests in various securities, which are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the consolidated statements of financial position.

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

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. 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, which is the general endowment pool for the Foundation. 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.

a. Alternative Investments

The fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at June 30 consist of the following (in thousands):

	<b>2010</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Fixed income funds (A)	\$ 35,593		Various from any valuation day to monthly	Various from none to 30 days
U.S. equity funds (B)	46,649		Various from semi-monthly to quarterly	Various from 5 to 60 days
International equities funds (C)	139,706		Various from any valuation day to last day of month	Various from 10 to 30 days
Equity long/short hedge funds (D)	71,085		Various from quarterly to annually	Various from 30 to 60 days
Multi-strategy hedge funds (E)	46,136		Various from quarterly to once every 36 months	Various from 45 to 90 days
Natural resources funds (F)	54,692	\$ 895	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	50,946	2,743	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	33,604	25,369	Illiquid	N/A

	2009			Redemption Notice Period
	Fair Value	Unfunded Commitments	Redemption Frequency	
Fixed income funds (A)	\$ 36,317		Various from any valuation day to monthly	Various from none to 30 days
U.S. equity funds (B)	36,593		Quarterly	60 days
International equities funds (C)	122,503		Various from any valuation day to last day of month	Various from 10 to 30 days
Equity long/short hedge funds (D)	56,717		Various from quarterly to annually	Various from 30 to 90 days
Multi-strategy hedge funds (E)	32,562		Various from quarterly to once every 36 months	Various from 13 months to 21 months
Natural resources funds (F)	35,793	\$ 2,060	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	40,603	2,743	Various from quarterly to illiquid	90 days, if allowable
Private equity funds (H)	30,615	33,421	Illiquid	N/A

- A. This category includes investments in attractive credit opportunities in investment grade corporate bonds, high yield bonds, bank loans, securitized bonds, strategic global fixed income opportunities in countries, currencies, sectors and securities as well as global credit arbitrage opportunities. Approximately \$1.0 million cannot be redeemed while the remaining amount can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days.
- B. This category includes two investments in U.S. equities, with one focused on large cap and the other on small- and mid-cap. All securities are traded on U.S. exchanges. The large cap investment, valued at \$42.7 million on June 30, 2010, is redeemable at calendar quarter end with 60 days prior notice. The other investment is redeemable twice per month with 5 days prior notice.
- C. This category includes investments in international equities in emerging and developed markets across all capitalization classes. Approximately 70% of the funds invested can be redeemed on a daily basis with 10 to 30 days notice. The remaining investments can be redeemed monthly with 15 to 30 days notice.
- D. This category includes investments in hedge funds that take both long and short positions in global equities and other securities. Most funds in this category use margin and other forms of leverage as well as various derivatives, including swaps, options, futures and forward contracts when deemed appropriated by the respective manager. Investments representing 12% of the value of the investments in this category have lockup periods ranging from 6 to 12 months as of June 30, 2010. Of these lockup investments, one manager, representing \$4.7 million, automatically renews the lockup for 12 months on the lockup anniversary unless a redemption request has been submitted. The remaining investments in this category can be redeemed at calendar year quarter ends with prior notification from 30 to 90.

- E. This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Investments representing 32% of the value of this category cannot be redeemed for various time periods ranging from 1 to 24 months as of June 30, 2010 due to agreements with the management of the funds. The remaining restriction period for these investments ranged from 6 months to never at June 30, 2010. One investment, valued at \$4.9 million, was in redemption as of June 30, 2010 but requires a 10% holdback until audited financial statements on the fund are published for the year ended December 31, 2010.
- F. This category includes a multi-strategy natural resources fund of funds, private oil & gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals, agricultural commodities. The funds typically invest in both the infrastructure and production facilities as well as in the actual metal, commodity or resource. Approximately 4% of the investments are private lock up funds with projected partnership maturities in 2018. The remaining investments can be redeemed daily with 10 to 90-day prior notification.
- G. This category includes investments in distressed-securities, -real estate and -credit. As a class, these investments strive to find U.S. and non-U.S. financial assets, real estate, debt obligations and securities that are inefficiently priced as a result of business, financial, market or legal uncertainties. Investments will include publicly traded securities and private investments. Two of these funds, with a combined value of \$14.1 million, can never be redeemed with the funds. These funds have expected partnership maturities in 2012 and 2017. Distributions from each fund will be made as the underlying investments of the funds are liquidated. Another fund, valued at \$5.2 million is not redeemable until April 2013, after which time redemptions can be made quarterly with 45 days prior notice. A full redemption incurs a 10% holdback provision that is eventually paid out after the next following audit financial statements for the fund are published. All remaining investments in this class can be redeemed on their respective annual anniversaries of investment with 90 days prior notice.
- H. This category includes several funds that invest in private equity of U.S. companies, international companies and U.S. real estate. Also included are several funds focusing on U.S. venture capital opportunities. One fund specializes in mezzanine debt for mid-cap U.S. companies. Approximately \$20.3 million is equally invested among 12 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2012 to 2022. Distributions from each fund will be made as the underlying investments of the funds are liquidated. All funds are commitment based investments with managers calling down commitments as investment opportunities arise. The June 30, 2010 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2010 are \$25.4 million, which is expected to be drawn over the next 5 years.

## 7. Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, Fair Value Measurements (Topic 820) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

### a. Money Market Mutual Funds

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market mutual funds.

### b. Investments

Level 1 securities include preferred and common stock and mutual funds. If quoted market prices are not available, then fair values are estimated by a third party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

For investments, other than marketable alternatives and investments in partnerships, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. For marketable alternatives and investments in partnerships that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value (or its equivalent) provided by the fund and are classified within Level 2 of the valuation hierarchy. Level 2 securities include corporate bonds, U.S. government securities, certain investments in partnerships and certain marketable alternative investments.

For marketable alternatives and investments in partnerships that do not have sufficient activity or liquidity within the fund, the net asset value (or its equivalent) provided by the fund is utilized, as a practical expedient, to determine fair value and are classified within Level 3 of the valuation hierarchy.

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2010 and 2009. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation the sole beneficiary of the majority of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

d. Restricted Investments

Level 1 securities include money market accounts, which are based on quoted market prices in an active market and Level 2 securities include U.S. agency obligations. The Level 2 securities are based on quoted market prices and are based on a pricing service and use inputs as described above.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2010 and 2009 (in thousands):

	<b>2010</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market mutual funds	\$ 282	\$ 282		
Investments				
Preferred and common stock	67,800	66,275		\$ 1,525
Corporate bonds	23,539	-	\$ 23,539	-
Mutual funds	73,648	73,648	-	-
Investment in partnerships and funds of funds	354,876	-	228,967	125,909
U.S. government securities	697	-	697	-
Marketable alternatives	123,435	-	14,151	109,284
Funds held in trust by others	37,934	-	37,934	-
Restricted investments				
U.S. Treasury money markets	1,681	1,681	-	-
Money market mutual funds	2,609	2,609	-	-
U.S. agency obligations	309	-	309	-

	2009			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market mutual funds	\$ 13,442	\$ 13,442		
Investments				
Preferred and common stock	83,956	83,956		
Corporate bonds	24,679	-	\$ 24,679	
Mutual funds	79,825	79,825	-	
Investment in partnerships and funds of funds	299,174	-	188,346	\$ 110,828
U.S. government securities	9,579	-	9,579	-
Marketable alternatives	92,429	-	13,703	78,726
Funds held in trust by others	34,847	-	34,847	-
Restricted investments				
U.S. treasury money markets	2,736	2,736	-	-
U.S. agency obligations	1,682	-	1,682	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs (in thousands):

	<b>Investment in partnerships and funds of funds</b>	<b>Marketable alternatives</b>	<b>Preferred and common stock</b>
Balance, July 1, 2009	\$ 110,828	\$ 78,726	\$ -
Total realized and unrealized gains and losses	12,422	9,212	-
Purchases	8,062	27,000	1,525
Sales	(5,403)	(2,362)	-
Settlements	-	(3,292)	-
Balance, June 30, 2010	<u>\$ 125,909</u>	<u>\$ 109,284</u>	<u>\$ 1,525</u>
Total gains for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	<u>\$ 8,435</u>	<u>\$ 10,640</u>	<u>\$ -</u>

	<u>Investment in partnerships</u>	<u>Marketable alternatives</u>
Balance, July 1, 2008	\$ 94,439	\$ 95,953
Total realized and unrealized gains and losses	(12,772)	(9,611)
Purchases	31,754	5,000
Sales	(2,593)	(7,570)
Settlements	-	(5,046)
Balance, June 30, 2009	<u>\$ 110,828</u>	<u>\$ 78,726</u>
Total losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	<u>\$ (12,772)</u>	<u>\$ (8,291)</u>

Realized and unrealized gains and losses included in change in net assets for the years ended June 30, 2010 and 2009, are reported in the consolidated statements of activities as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Total gains/(losses)	\$ 21,634	\$ (22,383)
Change in unrealized gains or losses relating to assets still held at the consolidated statement of financial position date	\$ 10,640	\$ (21,063)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position at amounts other than fair value.

**Cash and Cash Equivalents:**

The carrying amount approximates fair value.

**Loan Receivable:**

The carrying amount approximates fair value.

**Notes Receivable:**

Carrying amount is a reasonable estimate of fair value.

**Contributions Receivable:**

Fair value is estimated using a discounted cash flow model.

Restricted Cash:

The carrying amount approximates fair value.

Bonds and Notes Payable:

Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities. The carrying value of \$85.4 million and \$83.9 million as of June 30, 2010 and 2009, respectively, approximates fair value.

Funds Held in Trust for Others:

The carrying amount approximates fair value.

Annuities and Trusts Payable:

Fair values of the annuity and trust obligations are based on a calculation of discounted cash flows of the annuity payments under such obligations.

8. 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 \$15.5 million and \$14.7 million as of June 30, 2010 and 2009, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$22.4 million and \$20.1 million as of June 30, 2010 and 2009, respectively. These funds are invested in various equities and income producing assets. For the years ended June 30, 2010 and 2009, the Foundation received income of approximately \$3.0 million and \$1.5 million, respectively, from these trusts. These receipts are included in endowment income.

9. Restricted Investments

Restricted investments consist of money market accounts, agency securities, and a guaranteed investment contract of approximately \$5.6 million at June 30, 2010 and 2009. These investments are restricted by bond indenture for payment of debt service, and repairs and replacement.

	<u>2010</u>	<u>2009</u>
U.S. treasury money market	\$ 1,681	\$ 2,736
U.S. agency obligations	309	1,682
Money market mutual funds	2,609	-
Guaranteed investment contract	958	1,152
	<u>\$ 5,557</u>	<u>\$ 5,570</u>

## 10. Capital Assets

Capital assets as of June 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Residence halls:		
Buildings	\$ 50,734	\$ 50,629
Furniture and fixtures	3,586	3,460
Construction in process	211	83
Accumulated depreciation	<u>(12,294)</u>	<u>(10,590)</u>
Net	<u>42,237</u>	<u>43,582</u>
Other:		
Land	24,242	19,743
Land held for construction	7,555	7,555
Buildings	31,532	30,622
Other plant assets	27,142	15,820
Construction in process	2,097	9,409
Accumulated depreciation	<u>(14,337)</u>	<u>(12,401)</u>
Net	<u>78,231</u>	<u>70,748</u>
Total - net	<u>\$ 120,468</u>	<u>\$ 114,330</u>

Pursuant to the lease agreement, ULH agreed to pay the University annual ground rental equal to available excess cash flow, as defined in the agreement. For the years ended June 30, 2010 and 2009, ULH recognized ground rental expense of approximately \$555,000 and \$928,000, respectively.

## 11. Funds Held in Trust for Others

The Foundation is the custodian of funds owned by the Association. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. 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, 2010 and 2009, the Foundation held approximately \$32.1 million and \$29.7 million, respectively, for the Association'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 serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing healthcare services. As of June 30, 2010 and 2009, the Foundation held approximately \$9.2 million and \$8.4 million, respectively, for Jewish Hospital's investment purposes.

During the year ended June 30, 2007, the Foundation entered into an agreement with the University of Louisville Research Foundation, Inc. on behalf of the School of Dentistry, whereby the Foundation serves in an agency capacity to invest funds on behalf of the University of Louisville Research Foundation, Inc. As of June 30, 2010 and 2009, the Foundation held

approximately \$3.7 million and \$3.4 million, respectively, for the University of Louisville Research Foundation, Inc.'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.

## 12. Bonds and Notes Payable

Bonds and notes payable consist of the following at June 30, 2010 and 2009 (in thousands):

	Description	Fiscal Year of Maturity	2010	2009
Series 2001A (non taxable)	Variable rate demand bonds with principal payments of \$115 to \$2,935 are due annually through maturity, and interest is due monthly at variable rates up to 12%	N/A		\$ 22,295
Series 2002A (non taxable)	Variable rate demand bonds with principal payments of \$25 to \$985 are due annually through maturity, and interest is due monthly at variable rates up to 12%	N/A		13,835
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	\$ 13,815	13,910
Series 2005B (taxable)	Principal payments of \$55 to \$390 are due annually through maturity, and interest is due monthly at a fixed rate of 4.91%.	2016	1,650	1,820
Series 2009A (non taxable)	Principal payments of \$305 to \$2,610 are due annually beginning 10/01/10 through maturity, and interest is due semi-annually at fixed rates from 2% to 4.5%.	Ranging from 2011 to 2033	13,660	-
Series 2010A (non taxable)	Principal payments of \$765 to \$2,815 are due annually beginning 10/1/10 through maturity, and interest is due semi-annually at a fixed rates from 2.0% to 4.4%	Ranging from 2011 to 2030	22,020	-
Note Payable - AAF	Fixed rate of 5.99% with principal payment at end of note	2012	2,200	2,200
Note Payable - AAF	Fixed rate of 1.80% with principal payment at end of note	2012	5,992	5,992
Note Payable - KYT	Fixed rate of 4.96% with principal payment at end of note	2014	7,000	7,000
Note Payable - KYT	Fixed rate of 6.46% with principal payment at end of note	2014	12,500	12,500
Line of Credit - Nucleus	Variable rate, 1.85% and 2.19% as of June 30, 2010 and 2009, respectively - unsecured	2010	4,120	4,120
Note Payable - ULF	Annually adjustable fixed rate, 6.24% as of June 30, 2010, with principal and interest payments due monthly	2020	2,078	-
Total bonds and notes payable			85,035	83,672
Plus unamortized premium			413	268
Bonds and notes payable, net			\$ 85,448	\$ 83,940

a. Bonds Payable

The outstanding bonds are secured by deposits with the bond trustee, which are reported in restricted investments in the consolidated statements of financial position as of June 30, 2010 and 2009 and mortgages on the respective properties.

During the fiscal year ended June 30, 2010, ULH issued Student Housing Industrial Building Refunding Revenue Bonds, Series 2009A and Student Housing Industrial Building Refunding Revenue Bonds, Series 2010A to advance refunding on the outstanding Variable Rate Demand Student Housing Industrial Building Revenue Bonds, Series 2001A and Variable Rate Demand Student Housing Industrial Building Revenue Bonds, Series 2002A. A loss on defeasance of approximately \$921,000 resulted from the advance refunding and is included in residence hall operations expense on the statement of activities for the year ended June 30, 2010.

b. Notes Payable - AAF

In July 2008, AAF entered into a note payable with a financial institution to borrow \$6.0 million in relation to the purchase of Cardinal Station. The note bears an interest rate of 1.8% per annum, payable monthly. The principal is due in full January 2012.

In November 2008, AAF entered into a note payable with a financial institution to borrow \$2.2 million. The note bears an interest rate of 5.99% per annum, payable monthly. The principal is due in full in January 2012.

These notes are collateralized by mortgages on AAF property and pledges of lease and rent revenue.

c. Notes Payable - KYT

In November 2008, KYT entered into a note payable with a financial institution to borrow \$12.5 million in relation to the purchase of property adjacent to the University. The note bears an interest rate of 6.46% per annum, payable monthly. The principal is due in full November 2013.

In November 2008, KYT entered into a note payable with a financial institution to borrow \$7.0 million in relation to the purchase of property adjacent to the University. The note bears an interest rate of 4.96% per annum, payable monthly. The principal is due in full November 2013.

These notes are collateralized by mortgages on KYT property and pledges of lease and rent revenue.

d. Line of Credit – Nucleus

In July 1999, Nucleus entered into a \$5.0 million line of credit agreement with a financial institution, which matured on July 15, 2010 and subsequently renewed and extended to July 15, 2011. The line is unsecured and guaranteed by the Foundation. There was approximately \$880,000 unused and available on the line of credit at June 30, 2010 and 2009.

e. Note Payable – ULF

In September 2009, ULF entered into a note payable with a financial institution to borrow \$2.2 million in relation to the purchase of property near the University. The note bears an initial interest rate of 6.24% until September 2014, at which time it will be adjusted annually. Principal and interest payments are due monthly, with final payment due in September 2019. The note is secured by a mortgage on the property.

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

For the Year Ended June 30,	<b>Principal Due</b>
2011	\$ 5,572
2012	9,806
2013	1,641
2014	21,268
2015	1,886
Thereafter	44,862
	<u>\$ 85,035</u>

13. Guarantees

a. Bonds Payable

ULF is the guarantor of the ULH bonds payable. 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	\$ 32,455	\$ 2,938
Kurz Hall	21,367	955
Community Park	31,308	1,121

b. Notes Payable and Line of Credit

ULF is the guarantor of the AAF and KYT note payables and the Nucleus line of credit. As of June 30, 2010 and 2009, the outstanding principal related to the note payables was \$27.7 million and the outstanding principal related to the line of credit was \$4.1 million.

c. Student Organization Loans

During the fiscal year ended June 30, 2010, ULF became the guarantor on a loan for a University affiliated student organization with a principal balance of \$150,000. As of June 30, 2010, ULF guaranteed three separate loans related to student organizations. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection expenses and costs. The total amount approved for

loans was approximately \$1.2 million, with \$0.9 million and \$1.0 million outstanding, as of June 30, 2010 and 2009, respectively.

d. Association Mortgage Revenue Bonds

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 (Mortgage Revenue Bonds) at a combined net interest cost of 4.2 percent, the proceeds of which were loaned to the Association. The bond proceeds were used on September 1, 2008 to retire the Association's outstanding County of Jefferson Kentucky Government 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 (Stadium). Excess funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Stadium.

The Foundation is the guarantor of the Mortgage Revenue Bonds, and as such has agreed to maintain a balance of available cash sufficient enough to cover the next debt service payment. In exchange for the Foundation's willingness to serve as guarantor, the Association has agreed to pay the Foundation a credit enhancement fee and to exonerate and indemnify the Foundation from all liability in connection with the Mortgage Revenue Bonds, the obligations of the Association under the Loan Agreement and Mortgage, and any and all payments made by the Foundation as guarantor.

e. Lease Guarantee

In December 2006, the Foundation became the guarantor of payments due to University Faculty Office Building, LLC (UFOB) under the Master Lease agreement between the Medical School Practice Association, Inc. (MSPA) and UFOB. The Foundation has guaranteed the full and prompt payment of all amounts due to UFOB including any damages for default and payments to reimburse UFOB for any costs and expenses incurred by UFOB to cure any default by MSPA. The initial lease term is 15 years, beginning in July 2008. The annual lease payments due from MSPA to UFOB are approximately \$3.5 million, with an annual inflation of 3 percent.

14. Other Liabilities

Other liabilities, as of June 30, 2010 and 2009 are as follows (in thousands):

	<b>2010</b>	<b>2009</b>
Unitrust and annuity obligations	\$ 4,225	\$ 3,798
Deferred revenue	5,413	5,681
Grawemeyer awards	1,869	1,893
Deferred compensation	3,926	2,797
Miscellaneous	17	18
Asset retirement obligation	285	285
Total	<u>\$ 15,735</u>	<u>\$ 14,472</u>

#### 15. Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2010 and 2009 of approximately \$1.9 million, which represents the present value of the future annuity obligations. The liability has been determined using discounts rates ranging from 2.60% to 7.78%.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trusts attributable to the future interest of the Foundation is recorded in the consolidated statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation has recorded a liability at June 30, 2010 and 2009 of approximately \$2.3 million and \$1.9 million, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates ranging from 4.10% to 8.75%, a rate of return of 7.1%, and applicable mortality tables.

#### 16. Research Challenge Trust Fund

The Research Challenge Trust Fund (RCTF) was created with the passage of the Postsecondary Education Improvement Act of 1997 (HB 1). The objectives of RCTF stated in the bill are to, among other things, support efforts by the University to become a premier, nationally recognized metropolitan university. During the 1998 session of the Kentucky General Assembly, a \$100 million (\$16.7 million to the University) endowment was appropriated from the General Fund Surplus Expenditure Plan of House Bill 321 in support of the research universities' (i.e. the University and other state supported colleges and universities) missions.

The University irrevocably contributed these RCTF funds to the Foundation, although earnings from these funds are designated for the University in perpetuity.

State government will provide endowment funds with the provision that the universities match them dollar-for-dollar with donations received to establish endowments for research activities.

17. Expenses

Expenses by natural classification for the years ended June 30, 2010 and 2009 were approximately (in thousands):

	<u>2010</u>	<u>2009</u>
Personal service costs	\$ 36,214	\$ 40,458
Services	33,392	32,504
Equipment repairs	1,423	1,636
Supplies	3,261	2,777
Depreciation and amortization	5,250	4,206
Interest	3,294	2,724
Contributions to various University departments	4,760	2,298
	<u>\$ 87,594</u>	<u>\$ 86,603</u>

18. Fundraising Expenses

Fundraising expenses were approximately \$7.9 million and \$7.8 million for the years ended June 30, 2010 and 2009, respectively.

19. Net Assets

Net assets of the Foundation are segregated into classes of unrestricted, temporarily restricted, and permanently restricted assets. The following tables describe the functional classifications of temporarily and permanently restricted net assets as to purpose based upon the intent of donors (in thousands) as of June 30, 2010 and 2009:

June 30, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Instruction	\$ 985	\$ 36,448
Research	74	182,106
Public service	-	2,573
Academic support	450	53,132
Student services	-	163
Institutional support	43,021	5,682
Scholarships/fellowships	634	83,128
Auxiliary operations & other	-	300
Total	<u>\$ 45,164</u>	<u>\$ 363,532</u>

June 30, 2009:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Instruction	\$ 980	\$ 34,043
Research	366	169,037
Public service	-	2,385
Academic support	423	49,016
Student services	-	151
Institutional support	41,156	5,272
Scholarships/fellowships	652	76,284
Auxiliary operations & other	-	282
Total	<u>\$ 43,577</u>	<u>\$ 336,470</u>

Donor imposed restrictions expired on temporarily restricted net assets during the years ended June 30, 2010 and 2009 as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Temporarily restricted contributions for:		
Research	\$ 38	\$ 291
Academic support	435	497
Scholarships/fellowships	806	807
Net decrease in contributions receivable	2,209	-
Total net assets released from restrictions	<u>\$ 3,488</u>	<u>\$ 1,595</u>

## 20. Commitments

At June 30, 2010, the Foundation had approximately \$369,000 in encumbrances outstanding for future expenditures.

## 21. Risks and Uncertainties

### a. Current Economic Conditions

The current protracted economic decline presents not-for profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Foundation.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Foundation's ability to meet debt covenants or maintain sufficient liquidity.