

**ULH, Inc.**

**Accountants' Report and Financial Statements**

**June 30, 2008 and 2007**

# ULH, Inc.

## Table of Contents:

	Page
Independent Accountants' Report.....	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5



## Independent Accountants' Report

Board of Directors  
ULH, Inc.  
Louisville, Kentucky

We have audited the accompanying statements of financial position of ULH, Inc. (Organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2008 and 2007, 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.

*BKD, LLP*

October 3, 2008

**ULH, Inc.**

**Statements of Financial Position**

**June 30, 2008 and 2007**

**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash	\$ 560	\$ 539
Accounts receivable, less allowance for doubtful accounts of \$23 in 2008 \$51 in 2007	241	352
Restricted investments	5,023	4,759
Prepaid expenses and other	1,071	1,122
Other assets	-	2
Capital assets, net	44,988	46,740
Total assets	<u>\$ 51,883</u>	<u>\$ 53,514</u>
<b>LIABILITIES AND DEFICIENCY IN NET ASSETS</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 2,798	\$ 2,672
Bonds payable	52,391	53,105
Other liabilities	443	637
Total liabilities	55,632	56,414
Deficiency in net assets	(3,749)	(2,900)
Total liabilities and deficiency in net assets	<u>\$ 51,883</u>	<u>\$ 53,514</u>

See notes to the financial statements

**ULH, Inc.**

**Statements of Activities**

**Years Ended June 30, 2008 and 2007**

**(In Thousands)**

	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>		
Residence hall income	\$ 6,166	\$ 5,742
Other revenue	945	819
Total revenues	<u>7,111</u>	<u>6,561</u>
<b>OPERATING EXPENSES</b>		
Residence hall operations (including depreciation)	5,560	4,918
General and administrative	695	333
Total operating expenses	<u>6,255</u>	<u>5,251</u>
<b>Operating income</b>	856	1,310
<b>NONOPERATING (EXPENSES)/REVENUES</b>		
Interest expense	(1,853)	(2,440)
Change in fair value of interest rate swap agreements	(2)	(27)
Transfers from University of Louisville Foundation, Inc.	150	204
Total nonoperating expenses	<u>(1,705)</u>	<u>(2,263)</u>
<b>Change in net assets</b>	(849)	(953)
<b>Deficiency in net assets at beginning of year</b>	<u>(2,900)</u>	<u>(1,947)</u>
<b>Deficiency in net assets at end of year</b>	<u>\$ (3,749)</u>	<u>\$ (2,900)</u>

See notes to the financial statements

**ULH, Inc.**

**Statements of Cash Flows**

**Years Ended June 30, 2008 and 2007**

**(In Thousands)**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (849)	\$ (953)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,979	1,916
Change in fair value of interest rate swap agreements	2	27
Loss on disposals of capital assets	-	3
Change in assets and liabilities:		
Accounts receivable	111	(200)
Prepaid expenses and other	5	1
Accounts payable and accrued liabilities	126	(118)
Other liabilities	(194)	279
Net cash provided by operating activities	1,180	955
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(21,443)	(41,941)
Sales of investments	21,179	44,519
Purchase of capital assets	(175)	(2,810)
Net cash used in investing activities	(439)	(232)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments of bonds payable	(720)	(455)
Payment of bond issue costs	-	(187)
Net cash used in financing activities	(720)	(642)
Net increase in cash and cash equivalents	21	81
Cash at beginning of year	539	458
Cash at end of year	\$ 560	\$ 539
Supplemental information:		
Cash paid for interest (net of amount capitalized)	\$ 1,856	\$ 2,467

See notes to the financial statements

# ULH, Inc.

## Notes to Financial Statements

June 30, 2008 and 2007

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

#### a. Organization

ULH, Inc. (ULH) (a Kentucky not-for-profit corporation) is affiliated with the University of Louisville Foundation, Inc. (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 of or retain gifts of real estate independent of the Foundation.

#### b. Cash

ULH currently uses a commercial bank as its depository. Deposits with commercial banks exceeding federal depository insurance are approximately \$100,000.

#### c. Accounts Receivable

Accounts receivable consists of rental charges to tenants and other organizations that have functions hosted at a property. Accounts receivable is recorded net of estimated uncollectible amounts.

#### d. Investments

Investments consist of U.S. Treasury money market and time deposits and are stated at estimated market value.

Market value of restricted investments was approximately \$5.0 million and \$4.8 million at June 30, 2008 and 2007, respectively. These investments are restricted by bond indenture for payment of debt service, and repairs and replacement. During the years ended June 30, 2008 and 2007, these investments earned approximately \$233,000 and \$271,000, respectively, in interest, which is included in other revenues in the statements of activities.

#### e. Derivatives

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, ULH entered into interest rate swap agreements for its floating rate debt.

Management has not designated the interest rate swap agreements as hedging instruments under the provisions of Statement of Financial Accounting Standards No. 133. As a result, the agreements are recorded at fair value (included in other assets) with subsequent changes in fair value included in earnings in the accompanying statements of activities.

f. Capital assets

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

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, 2008 and 2007, ULH did not capitalize any interest.

g. Tax status

ULH has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxes under §501(c)(3) of the Internal Revenue Code and a similar provision of state law.

h. 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.

i. Functional allocation of expenses

The costs of supporting the residence hall operations have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the residence hall operations and general and administrative categories based on actual expenses and other methods.

2. Capital Assets

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

	<u>2008</u>	<u>2007</u>
Residence halls:		
Buildings	\$ 50,437	\$ 50,318
Furniture and fixtures	3,310	3,265
Construction in process	26	16
Accumulated depreciation	<u>(8,785)</u>	<u>(6,859)</u>
Total - net	<u>\$ 44,988</u>	<u>\$ 46,740</u>

Pursuant to a lease agreement, ULH agreed to pay the University of Louisville annual ground rental equal to available excess cash flow, as defined in the agreement. For the years ended June 30, 2008 and 2007, ULH recognized ground rental expense of approximately \$758,000 and \$389,000, respectively.

### 3. Bonds Payable

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

	<u>Description</u>	<u>Year of Maturity</u>	<u>2008</u>	<u>2007</u>
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			<u>52,625</u>	<u>53,345</u>
Less unamortized premium and discount			(234)	(240)
Bonds payable, net			<u>\$ 52,391</u>	<u>\$ 53,105</u>

The Foundation 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 letters 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):

<b>Residence Hall</b>	<b>Aggregate limit</b>	<b>Annual limit</b>
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 will be due in the next five years and thereafter as follows (in thousands):

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

#### 4. Derivative financial instruments

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, ULH entered into interest rate swap agreements for a portion of its floating rate debt. Under the agreements, ULH paid or received the net interest amount monthly, with the monthly settlements included in interest expense. The agreements were recorded at their fair value with subsequent changes in fair value included in change in fair value of swap agreements in nonoperating (expenses) revenues.

ULH had a swap agreement whereby ULH paid a fixed interest rate of 3.60% on a notional amount of \$14.1 million as of June 30, 2007 in exchange for receiving payments based on a floating interest rate tied to the Municipal Bond Association Index. The floating rate is reset on a weekly basis. The market value of this agreement was approximately \$2 at June 30, 2007 and is included in other assets on the statements of financial position. This agreement terminated on July 2, 2007.

#### 5. Subsequent Events

##### a. Bond Remarket Failure

In September 2008, approximately \$4.8 million of the Series 2001 bonds payable failed to remarket and the amounts were drawn against the Foundation's 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.