

UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

**Accountants' Report and Financial Statements
June 30, 2007 and 2006**

UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
University of Louisville Research Foundation, Inc.
Louisville, Kentucky

We have audited the accompanying basic financial statements of the University of Louisville Research Foundation, Inc. (Research Foundation) as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Research Foundation'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 Research Foundation as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is 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

September 21, 2007

UNIVERSITY OF LOUISVILLE RESEARCH FOUNDATION, INC.

A Component Unit of the University of Louisville

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 Research Foundation, Inc. (Research Foundation) for the years ended June 30, 2007, 2006, and 2005. 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 Research Foundation is a non-profit corporation affiliated with the University of Louisville (University), a state-supported research university located in Kentucky's largest metropolitan area. The Research Foundation was established in 1989 for the purpose of promoting and supporting research projects, investigations, and other activities relating to the educational, scientific, literary, artistic, health care and public service missions of the University.

The University's Challenge for Excellence Strategic Plan guides the Research Foundation's program. The Research Foundation accepts funding for research, training and service from extramural sources and has progressed steadily towards the goals established by the Kentucky Council on Postsecondary Education. During the fiscal year ended June 30, 2007, total awards were \$151.1 million. Some funding highlights include:

- \$4.4 million from NIH over the next five years to support research in the area of Environmental Genomics and Integrative Biology. This prestigious award is highly competitive and places the University among a limited number of institutions such as Johns Hopkins, Harvard and the University of North Carolina that are studying the specifics of gene-environment interaction with the goal of developing treatments and programs that will lessen the impact of environmental contamination on Kentucky's citizens
- \$2.0 million to support Scaling Up the Implementation of a Pre-Kindergarten Mathematics Intervention in Public Preschool Programs
- \$2.8 million to study the Genetic and Environmental Risk Factors for Progressive Supranuclear Palsy
- \$1.8 million to support the Stonecoal Branch and Slabcamp Creek Watershed Project
- \$1.2 million for Development of Neural Recovery rehabilitation and Research for Functional Health and Quality of Life Improvements after Neurologic Injury
- \$0.9 million from NASA to study Rejuvenating Injured Tissues for Enhanced Wound Healing

The Research Foundation is expanding its research base by promoting new collaborative research efforts within the University. One such example is the Center for Predictive Medicine for Biodefense and Emerging Infectious Disease. Ground has been broken for a building to house this initiative. The center will expand the University's focus in the area of emerging infections.

The University supports these research missions by providing the capital investments needed to complete the research. The Biomedical Research Building III/IV, which will provide additional research space for oncology, infectious disease and other health related research initiatives, is due to be completed in 2009.

Financial Highlights

- The Research Foundation's financial position remains strong at June 30, 2007, with total assets of \$115.9 million and liabilities of \$20.8 million as compared to June 30, 2006 at \$113.3 million of total assets and \$24.6 million of liabilities. Net assets, which represent the residual interest in the Research Foundation's assets after liabilities are deducted, were \$95.1 million and \$88.7 million at June 30, 2007 and 2006, respectively.
- The Research Foundation's total liabilities of \$20.8 million consist primarily of deferred revenue. Deferred revenue represents the unearned portion of grants and sponsored programs and comprises \$13.0 million or 62% of total liabilities.
- Operating revenues amounted to \$320.3 million and \$294.0 million and operating expenditures were \$308.6 million and \$276.8 million resulting in a net operating income of \$11.7 million and \$17.2 million for the years ended June 30, 2007 and 2006, respectively. When adjusted for net nonoperating expenses of \$5.2 million and \$5.0 million, net assets of the Research Foundation increased by \$6.5 million and \$12.2 million for the years ended June 30, 2007, and 2006, respectively.

Using the Financial Statements

The Research Foundation's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles. The Research Foundation is presented here as a single entity and is also included in the financial statements of the University.

GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, requires the Research Foundation to present a classified Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets. Significant presentations under GASB Statement No. 35 with respect to the Research Foundation financial statements are as follows:

- Revenues and expenses are categorized as either operating or nonoperating. Certain revenues, including state appropriations, gifts, and investment income (loss) are considered nonoperating, as defined by GASB Statement No. 35. The Research Foundation's nonoperating revenues consist mainly of \$5.8 million and \$6.1 million in gift revenue for the years ended June 30, 2007 and 2006, respectively. These revenues relate to non-exchange transactions in which the Research Foundation is the beneficiary.
- Unexpended cash advances received for grants and sponsored programs are recorded as deferred revenue rather than as income when received. Such deferred revenues totaled \$13.0 million and \$16.8 million for the fiscal years ended June 30, 2007 and 2006, respectively.
- Capital assets are depreciated and reported net of accumulated depreciation. The Research Foundation's capital assets as of June 30, 2007 and 2006 consist primarily of equipment and library materials with a net asset value of \$40.6 million and \$36.3 million, respectively.

Statements of Net Assets

The statements of net assets present the financial position of the Research Foundation at the end of the fiscal year and include all assets and liabilities. Net assets represent the difference between total assets and total liabilities and provide a snapshot of the current financial condition of the Research Foundation 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. Capital assets are stated at historical cost less accumulated depreciation. A condensed version of the Research Foundation's assets, liabilities and net assets at June 30, 2007, 2006, and 2005 is summarized below:

Condensed Statements of Net Assets June 30, 2007, 2006 and 2005 (In Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 - 2006</u> <u>Change</u>	<u>2006 - 2005</u> <u>Change</u>
ASSETS					
Current assets	\$ 70,351	\$ 76,188	\$ 65,793	\$ (5,837)	\$ 10,395
Capital assets	40,629	36,333	25,506	4,296	10,827
Other noncurrent assets	4,955	753	1,875	4,202	(1,122)
Total Assets	<u>115,935</u>	<u>113,274</u>	<u>93,174</u>	<u>2,661</u>	<u>20,100</u>
LIABILITIES					
Current liabilities	<u>20,801</u>	<u>24,593</u>	<u>16,667</u>	<u>(3,792)</u>	<u>7,926</u>
NET ASSETS					
Invested in capital assets, net of related debt	40,548	36,074	25,506	4,474	10,568
Restricted-Expendable	4,426	3,348	3,216	1,078	132
Unrestricted	50,160	49,259	47,785	901	1,474
Total Net Assets	<u>\$ 95,134</u>	<u>\$ 88,681</u>	<u>\$ 76,507</u>	<u>\$ 6,453</u>	<u>\$ 12,174</u>

Assets

A review of the Research Foundation's statement of net assets at June 30, 2007 indicates that the Research Foundation is highly liquid with no long-term debt. Of the \$70.4 million in current assets, \$43.4 million, or 62%, consists of cash and cash equivalents. Of the remaining \$27.0 million, \$26.2 million, or 37%, of total current assets represents accounts receivable that are to be collected within the next year. As detailed in the Statement of Cash Flows, the cash decreased during the year by \$8.3 million, due mainly to a \$4.0 million investment of cash at the University of Louisville Foundation, Inc (Foundation). The funds were transferred by the School of Dentistry and will be used for planned construction and renovations.

Noncurrent assets consist of \$40.6 million of capital assets, \$0.7 million of noncurrent accounts receivable, and \$4.3 million of investments held with the Foundation. The increase in depreciable equipment reflects the Research Foundation's emphasis on providing researchers the equipment and supplies necessary to further their progress.

Liabilities

The Research Foundation's current liabilities consist mainly of \$13.0 million of unexpended cash advances for sponsored research activities. This deferred revenue decreased by \$3.7 million from the fiscal year ended June 30, 2006, due mainly to the timing of expenditures related to the sponsored research projects. The Research Foundation is required to set up a deferred liability when awards are paid in advance, as they

are responsible for paying back any unused funds to the sponsor. Trade accounts payable and amounts due to the Foundation account for the remaining \$7.8 million of current liabilities due at June 30, 2007.

Net Assets

Net assets represent the residual interest in the Research Foundation's assets after liabilities are deducted. The Research Foundation's net assets at June 30, 2007 and 2006 were \$95.1 million and \$88.7 million, respectively. They are summarized into the three major categories in accordance with GASB Statement No. 35 reporting requirements as follows:

Invested in capital assets, net of related debt - \$40.5 million

The Research Foundation's \$40.5 million in net capital assets represent construction in progress, equipment and depreciable library materials, net of accumulated depreciation. There is no debt attributable to the acquisition, construction or improvement of those assets. The \$4.5 million increase over prior year reflects \$11.5 million of capital asset additions, offset by recognition of depreciation expense.

Restricted expendable net assets - \$4.4 million

Restricted expendable net assets represent funds primarily from fixed payment contracts that are subject to externally imposed restrictions governing their use. Net assets result from the excess of contract revenues over expenses incurred through June 30, 2007. The net assets remain restricted until the contract is completed.

Restricted expendable net assets increased \$1.1 million or 32%. As contracts are completed and grant awards are fully utilized, it is expected that there will not be excess net assets.

Unrestricted net assets - \$50.2 million

Unrestricted net assets result primarily from net operating income derived from clinical services and fixed contract revenues in excess of actual expenses. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the Research Foundation's unrestricted net assets have been designated for various academic and research programs and initiatives.

Unrestricted net assets increased \$0.9 million or 2% over unrestricted net assets at June 30, 2006. The increase is a result of additional revenue in the clinical operations, including a \$9.4 million increase in revenues from an intergovernmental transfer transaction with the state Medicaid office. The additional clinical revenue is offset by increased expenses in instruction of \$8.6 million.

Fiscal Year 2006

The Research Foundation's financial position as of the fiscal year ended June 30, 2006 shows increases in both assets and liabilities with an overall increase in net assets. Assets increased during the fiscal year ended June 30, 2006 by \$20.1 million, or 22%, as compared to the fiscal year ended June 30, 2005. This increase was due mainly to the \$10.8 million increase in capital assets as well as a \$23.8 million increase in cash and cash equivalents, offset by the \$13.2 million decrease in accounts receivables and a \$1.1 million decrease in amounts due from the University. The increase in liabilities mainly resulted from the increase in deferred revenues which increased \$5.5 million from the fiscal year ended June 30, 2005.

Net assets increased \$12.2 million or 16% over net assets at June 30, 2005 due mainly to the \$10.6 million increase in investments in capital assets. This increase reflects the \$15.6 million investment in new capital assets, offset by the recognition of depreciation expense.

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. A condensed version of the Research Foundation's revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006, and 2005 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2007, 2006 and 2005 (In Thousands)

	2007	2006	2005	2007 - 2006 Change	2006 - 2005 Change
OPERATING REVENUES					
Clinical services	\$ 144,270	\$ 128,298	\$ 120,407	\$ 15,972	\$ 7,891
Grants and contracts	154,817	146,763	145,348	8,054	1,415
Facilities and administrative cost recoveries	20,575	18,623	17,122	1,952	1,501
Other operating revenues	620	356	78	264	278
Total operating revenues	<u>320,282</u>	<u>294,040</u>	<u>282,955</u>	<u>26,242</u>	<u>11,085</u>
OPERATING EXPENSES					
Depreciation	6,855	4,841	3,324	2,014	1,517
Other operating expenses	301,774	271,977	254,633	29,797	17,344
Total operating expenses	<u>308,629</u>	<u>276,818</u>	<u>257,957</u>	<u>31,811</u>	<u>18,861</u>
Operating income	<u>11,653</u>	<u>17,222</u>	<u>24,998</u>	<u>(5,569)</u>	<u>(7,776)</u>
Gifts	5,773	6,102	4,664	(329)	1,438
Transfers	(11,296)	(11,206)	(7,479)	(90)	(3,727)
Other nonoperating revenues/(expenses)	323	56	(2)	267	58
Increase in net assets	<u>6,453</u>	<u>12,174</u>	<u>22,181</u>	<u>(5,721)</u>	<u>(10,007)</u>
Net assets, beginning of year	88,681	76,507	54,326	12,174	22,181
Net assets, end of year	<u>\$ 95,134</u>	<u>\$ 88,681</u>	<u>\$ 76,507</u>	<u>\$ 6,453</u>	<u>\$ 12,174</u>

Operating Revenues

The Research Foundation recognized \$320.3 million in operating revenues for the year ended June 30, 2007. This represents a 9% increase in revenues from the \$294.0 million reported for the year ended June 30, 2006.

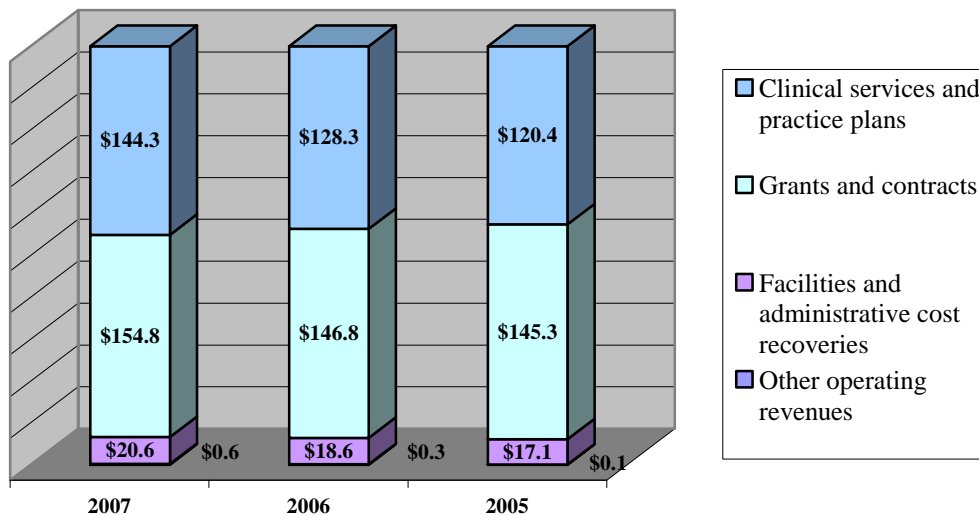
Revenues from clinical services were \$144.3 million for the year. This is an increase of approximately \$16.0 million, or 12%, compared to \$128.3 million in similar revenues reported for the year ended June 30, 2006. The increase in revenues is partially related to the \$9.4 million increase in income received from an intergovernmental transfer transaction with the state Medicaid office. For the years ended June 30, 2007 and 2006, revenues earned for clinical services are reported net of \$28.0 million and \$27.7 million, respectively, in contractual allowances related to federal, state and private insurance providers.

Revenues from grants and contracts were \$154.8 million for the year ended June 30, 2007 as compared to \$146.8 million in revenues reported in the previous year. The increase is attributable to additional federal grants of \$5.3 million and a \$5.0 million increase in state and local grants for the year ended June 30, 2007. These increases reflect the Research Foundation's commitment to reach the research goals in the Challenge for Excellence.

Revenues from facilities and administrative cost recoveries were \$20.6 million and \$18.6 million for the years ended June 30, 2007 and 2006, respectively. This represents the collection of a contractually agreed upon percentage applied to the grant reimbursements in lieu of calculating fees for indirect costs, such as general and administrative expenses, use of buildings and labs or utilities. As grant revenues increase, these cost recoveries increase accordingly. The Research Foundation, in turn, compensates the University for a portion of the cost recoveries in support of those expenditures. For the years ended June 30, 2007 and 2006, approximately \$10.4 million and \$9.7 million, respectively, was transferred to the University for this purpose.

The following is a graphic illustration of the Research Foundation’s operating revenues by major source for the years ended June 30, 2007, 2006, and 2005 (in millions).

**Operating Revenues
Years Ended June 30, 2007, 2006, and 2005**

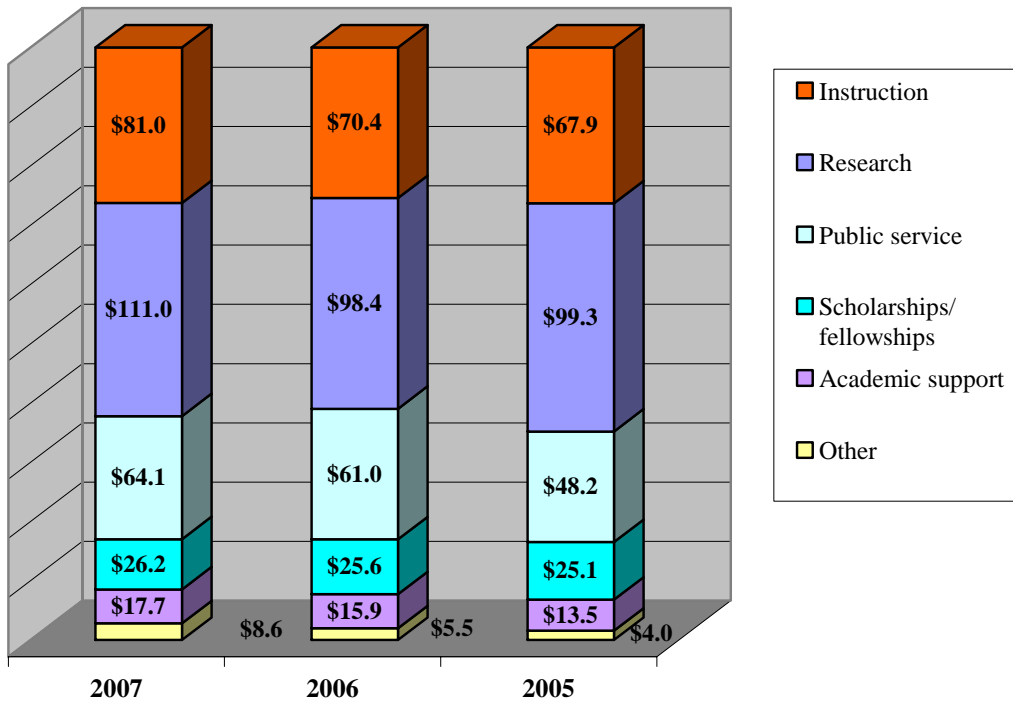


Operating Expenses by Functional and Natural Class

Total operating expenses were \$308.6 million and \$276.8 million for the fiscal years ended June 30, 2007 and 2006, respectively. The increase of \$31.8 million, or 11%, is directly related to the \$12.6 million increase in research expense along with the \$10.5 million increase in expenses related to instruction. Increases of \$10.1 million in sponsored programs’ research expense account for the majority of the total increase. This is directly related to the increased revenue from grants and sponsored program revenue. In addition, there was a \$9.0 million increase in clinical expenses as it relates to instruction due mainly to increased costs associated with teaching staff.

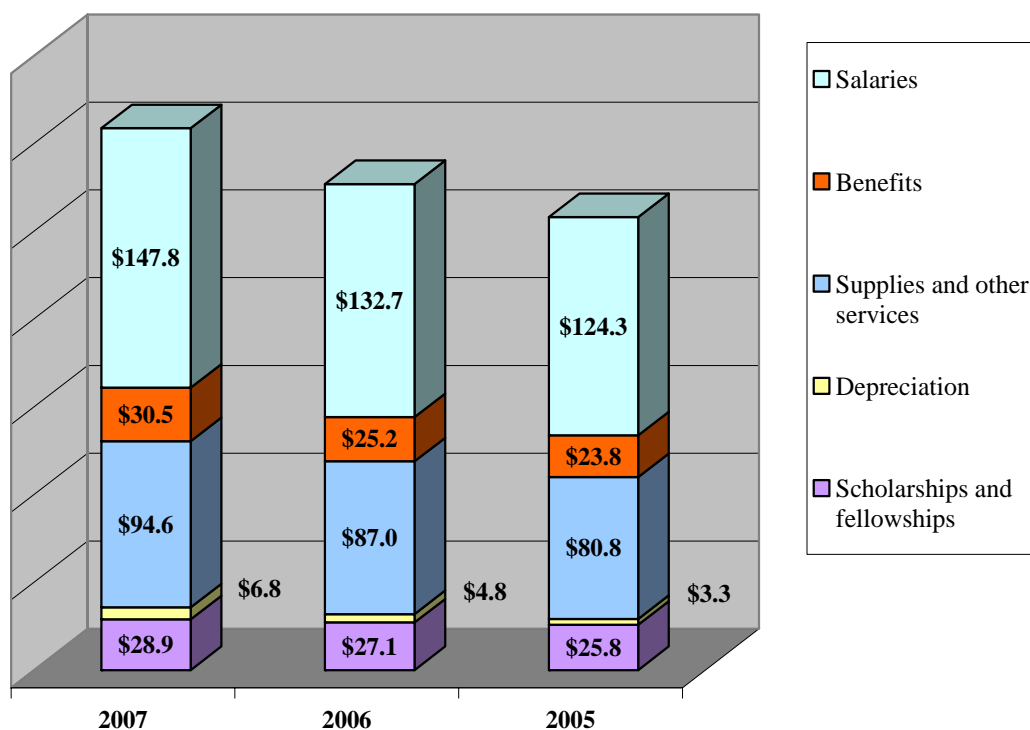
The following is a graphic illustration of total operating expenses by function for the years ended June 30, 2006, 2005 and 2004 (in millions):

Operating Expenses - Functional
Years ended June 30, 2007, 2006, and 2005



The following is a graphic illustration of total operating expenses by natural classification for the years ended June 30, 2006, 2005 and 2004 (in millions):

**Operating Expenses: Natural Classification
Years Ended June 30, 2007, 2006, and 2005**



Nonoperating Revenues (Expense)

The Research Foundation’s total nonoperating expense of \$5.2 million for fiscal year ended June 30, 2007, was mostly comprised of non-exchange gift revenues of \$5.8 million and transfer expenses of \$11.3 million. Included in the transfers total was a \$10.4 million transfer to the University, related to the facilities and administrative revenue, for administrative expenses incurred for sponsored research. As compared to fiscal year ended June 30, 2006 there was no significant change to the net total of nonoperating expenses.

Fiscal Year 2006

For the year ended June 30, 2006, Research Foundation reported \$294.0 million in operating revenues. This was a 4% increase from the \$283.0 million reported for the year ended June 30, 2005.

Revenues from clinical services were \$128.3 million for fiscal year 2006, an increase of 7% from the fiscal year ended June 30, 2005. The increase is partially related to \$3.7 million income received from the Passport matching program, which is the Medicaid HMO for this region.

Revenues from grants and contracts were \$146.8 million during the fiscal year ended June 30, 2006 a \$1.4 million increase from the fiscal year ended June 30, 2005. The increase is primarily attributable to additional nongovernmental grants of \$4.1 million and state and local grants of \$2.0 million, offset by a \$4.7 million decrease in federal grants and contracts. Revenues from facilities and administrative cost recoveries increased 9% as compared to the fiscal year ended June 30, 2005. In conjunction with the

facilities and administrative cost recoveries, \$9.7 million was transferred to the University, an increase of \$1.6 million from the \$8.1 million transferred in the fiscal year ended June 30, 2005.

Total operating expenses were \$276.8 million and \$258.0 million for the years ended June 30, 2006 and 2005, respectively. The increase of \$18.8 million, or 7%, is directly related to the \$1.4 million increase in grant revenues. The majority of the increase is due to the \$12.5 million increase in public service expense, which correlates with the increase in clinical revenue.

Statements of Cash Flows

The Statements of Cash Flows provide information about the Research Foundation's cash position by reporting the sources and uses of cash during the year. Cash inflows and outflows are categorized as operating, noncapital financing, capital financing and investing activities. A summary of the Research Foundation's cash flow activity for the years ended June 30, 2007, 2006, and 2005 is as follows:

Condensed Statements of Cash Flows
Years Ended June 30, 2007, 2006 and 2005
(In Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 - 2006</u> Change	<u>2006 - 2005</u> Change
Cash provided/(used) by:					
Operating activities	\$ 11,206	\$ 43,455	\$ 21,224	\$ (32,249)	\$ 22,231
Noncapital and related financing activities	(4,044)	(4,131)	(5,389)	87	1,258
Capital financing activities	(11,456)	(15,479)	(19,161)	4,023	3,682
Investing activities	(4,000)	-	125	(4,000)	(125)
Net (decrease)/increase in cash	(8,294)	23,845	(3,201)	(32,139)	27,046
Cash and cash equivalents, beginning of year	51,717	27,872	31,073	23,845	(3,201)
Cash and cash equivalents, end of year	<u>\$ 43,423</u>	<u>\$ 51,717</u>	<u>\$ 27,872</u>	<u>\$ (8,294)</u>	<u>\$ 23,845</u>

Operating Activities

The Research Foundation operating activities provided approximately \$11.2 million in net cash in the fiscal year ended June 30, 2007. Due mainly to a \$15.2 million decrease in cash from grants and contracts, during the fiscal year ended June 30, 2007, the cash provided by operating activities decreased \$32.3 million as compared to the prior year. Additionally, cash outflows from operations during the fiscal year ended June 30, 2007 increased due largely to expenses related to salaries, which increased \$15.1 million, and benefits, which increased \$4.8 million, as compared to the fiscal year ended June 30, 2006.

Other Activities

The \$4.0 million cash used by noncapital and related financing activities includes the Research Foundation's payment of \$10.4 million to the University as reimbursement for indirect charges to support the use of buildings and labs. This was a \$0.7 million increase from the fiscal year ended June 30, 2006. This was offset by the receipt of \$5.8 million in non-exchange revenue classified as gifts.

Cash used for capital financing activities decreased to \$11.5 million during the fiscal year ended June 30, 2007, due to a decrease in the amount of capital assets purchased. The \$4.0 million in investing activities relates to the investments held by the Foundation for the School of Dentistry.

Fiscal year 2006

The Research Foundation's cash and cash equivalents increased by \$23.8 million during the fiscal year ended June 30, 2006. The Research Foundation's operating activities provided approximately \$43.4 million in net cash, an increase of \$22.2 million or 105%, compared to the cash provided by operations in the fiscal year ended June 30, 2005. Total cash received from operations was \$312.7 million, which was a \$36.2 million or 13% increase from the fiscal year ended June 30, 2005. The cash increase is mostly due to a \$25.7 million and \$8.8 million increase in cash generated from grants and contracts and clinical services, respectively, in the fiscal year ended June 30, 2006.

Cash outflows from operations during the fiscal year ended June 30, 2006, were \$269.3 million. This was an increase of \$14.0 million as compared to the fiscal year ended June 30, 2005. The increase in cash outflows is largely due to a \$8.4 million increase in the Research Foundation's expenses related to salaries and a \$2.9 million increase in cash paid for supplies and other services during the fiscal year ended June 30, 2006, as compared to the prior year.

The \$4.1 million of cash used for noncapital and related financing activities includes the Research Foundation's payment of \$9.7 million to the University as reimbursement for indirect charges to support the use of buildings and labs. This was a \$1.6 million increase from the fiscal year ended June 30, 2005. This was offset by the \$6.1 million in cash received related to gifts, which was a \$1.4 million increase when compared to the \$4.7 million of cash received for gifts in the fiscal year ended June 30, 2005. Cash used for capital financing activities was \$15.5 million, representing the purchase of capital equipment, a 24% decrease from the fiscal year ended June 30, 2005.

Economic Factors that May Affect the Future

A goal of the Commonwealth of Kentucky, as detailed in the Kentucky Postsecondary Education Improvement Act of 1997 (House Bill 1), is for the University to become a premier, nationally recognized metropolitan research university. To achieve that aspiration, the University embarked on the Challenge for Excellence 1998-2008, a forward-looking ten-year strategic plan. A decade later the University is in a much different place. At its 2006 annual retreat, the Board of Trustees decided that the University was on the verge of achieving all of the Challenge goals and instructed President James R. Ramsey to move ahead aggressively to the "next level" in the University's pursuit of excellence.

President Ramsey subsequently charged Executive Vice President and University Provost Shirley C. Willihnganz with development of a new strategic plan for accomplishment of the state-mandated goal. Through a process inclusive of University constituents and community members at large, the Provost delivered a draft University of Louisville Strategic Plan 2020 this summer for campus and community review and input.

A subsequent draft companion long-range financial plan details a realistic projection of the costs to implement the strategic plan. This business plan builds the case for additional resources to fund new strategic initiatives through the year 2020. It is premised on the idea that the University will need an ongoing and sustainable investment of funds for its programs and activities to reach its goals. The business plan embraces the principles that the University must use all of its financial resources wisely by maximizing underperforming assets, competing for new grants and contracts, increasing philanthropy from the private sector, pricing tuition and services competitively and working conscientiously to develop new sources of untapped revenue.

In its quest for preeminence, while the University hopes not to depend solely on State support to fund its strategic plan, it will make the case that more State funds are needed. 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. The Economic Revenue Report projected the state's finishing the fiscal year June 30, 2007 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.

The University does not record a liability for post-employment retiree health benefits. Governmental Accounting Standards require that this liability be recognized in the financial statements for fiscal periods beginning after December 15, 2006. Based on actuary calculations, the University's actuarial accrued liability at July 1, 2007 is \$69.2 million and the annual required contribution will be \$8.4 million for the fiscal year ended June 30, 2008. The University is not required and is currently reviewing to determine whether to fund the actuarial liability. It has not been determined how much of the liability or expense will be allocated to the Research Foundation.

University of Louisville Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Net Assets
June 30, 2007 and 2006
(In Thousands)

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 43,423	\$ 51,717
Accounts receivable, net	26,160	22,639
Due from University of Louisville	-	1,151
Inventories	451	441
Other assets	317	240
Total current assets	70,351	76,188
Noncurrent Assets:		
Accounts receivable, net	693	753
Investments held with University of Louisville Foundation, Inc.	4,262	-
Capital assets, net	40,629	36,333
Total noncurrent assets	45,584	37,086
Total assets	115,935	113,274
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	7,738	7,749
Accounts payable to University of Louisville Foundation, Inc.	68	94
Deferred revenue	12,995	16,750
Total current liabilities	20,801	24,593
Total liabilities	20,801	24,593
NET ASSETS		
Invested in capital assets, net of related debt	40,548	36,074
Restricted - Expendable for:		
Research	2,860	793
Instruction	1,369	1,159
Public service	-	1,224
Scholarships and fellowships	190	164
Student services	7	8
Unrestricted	50,160	49,259
Total net assets	\$ 95,134	\$ 88,681

See notes to the financial statements

University of Louisville Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006
(In Thousands)

	<u>2007</u>	<u>2006</u>
REVENUES		
Operating revenues:		
Clinical services, net of contractual allowance of \$27,978 in 2007 and \$27,699 in 2006	\$ 144,270	\$ 128,298
Federal grants and contracts	111,859	106,547
State and local grants and contracts	30,996	26,018
Nongovernmental grants and contracts	11,962	14,198
Other operating revenue	620	356
Facilities and administrative cost recoveries	20,575	18,623
Total operating revenues	<u>320,282</u>	<u>294,040</u>
EXPENSES		
Operating expenses:		
Instruction	80,964	70,451
Research	111,030	98,431
Public service	64,081	60,645
Scholarships and fellowships	26,233	25,563
Academic support	17,695	15,871
Institutional support	688	516
Operation and maintenance of plant	812	451
Depreciation	6,855	4,841
Student services	261	17
Service centers	10	32
Total operating expenses	<u>308,629</u>	<u>276,818</u>
Operating income	<u>11,653</u>	<u>17,222</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	5,773	6,102
Net realized and unrealized gain on investments	262	-
Other nonoperating income	61	56
Net nonoperating revenues	<u>6,096</u>	<u>6,158</u>
Transfers	<u>(11,296)</u>	<u>(11,206)</u>
Total nonoperating expenses	<u>(5,200)</u>	<u>(5,048)</u>
Increase in net assets	6,453	12,174
NET ASSETS		
Net assets - beginning of year	88,681	76,507
Net assets - end of year	<u>\$ 95,134</u>	<u>\$ 88,681</u>

See notes to the financial statements

University of Louisville Research Foundation, Inc.
A Component Unit of the University of Louisville
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006
(In Thousands)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Clinical services	\$ 143,449	\$ 130,166
Grants and contracts	148,423	163,614
Facilities and administrative cost recoveries	20,575	18,623
Other operating revenue	620	355
Payments to employees	(147,801)	(132,714)
Payments for benefits	(29,994)	(25,224)
Payments for scholarships and fellowships	(28,875)	(27,053)
Payments to suppliers	(95,191)	(84,312)
Net cash provided by operating activities	<u>11,206</u>	<u>43,455</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to related entities	(11,029)	(11,440)
Gifts	5,773	6,102
Decrease in loan receivable from University of Louisville	1,151	1,151
Other noncapital financing activity	61	56
Net cash used by noncapital and related financing activities	<u>(4,044)</u>	<u>(4,131)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	<u>(11,456)</u>	<u>(15,479)</u>
Net cash used by capital and related financing activities	<u>(11,456)</u>	<u>(15,479)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	<u>(4,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(4,000)</u>	<u>-</u>
Net (decrease)/increase in cash	(8,294)	23,845
Cash and cash equivalents - beginning of year	51,717	27,872
Cash and cash equivalents - end of year	<u>\$ 43,423</u>	<u>\$ 51,717</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 11,653	\$ 17,222
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,855	4,841
Loss on disposal of equipment	119	45
Changes in assets and liabilities:		
Accounts receivable, net	(3,461)	13,219
Inventories	(10)	(29)
Other assets	(77)	231
Accounts payable and accrued liabilities	(118)	2,425
Deferred revenue	(3,755)	5,501
Net cash provided by operating activities	<u>\$ 11,206</u>	<u>\$ 43,455</u>
NONCASH TRANSACTIONS		
Transfer of assets (to)/from University of Louisville	<u>\$ (267)</u>	<u>\$ 234</u>
Capital asset additions in accounts payable	<u>\$ 81</u>	<u>\$ -</u>

See notes to the financial statements

University of Louisville Research Foundation, Inc.

A Component Unit of the University of Louisville

Notes to Financial Statements

June 30, 2007 and 2006

1. Organizations and Summary of Significant Accounting Policies

The University of Louisville Research Foundation, Inc. (the Research Foundation) is affiliated with the University of Louisville (the University) through a common Board of Directors and management. The Research Foundation is included within the University's consolidated financial statements. The Research Foundation is a separate corporation organized for the purpose of conducting the research, clinical operations, and other sponsored activities of the University. The significant accounting policies followed by the Research Foundation are described below.

a. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University and the Research Foundation have 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.

b. Cash on Deposit with the University of Louisville

For administrative convenience, cash balances of the Research Foundation are included in bank accounts maintained by the University. Details of accounting transactions affecting cash are maintained in such a manner as to ensure an appropriate segregation of amounts maintained by each entity.

The University currently uses the Commonwealth of Kentucky (the Commonwealth) and a commercial bank as its depositories. 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 or in the Commonwealth's name.

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

c. Accounts Receivable

Accounts receivable consists of clinical and sponsored agreement charges. Clinical receivables comprise of patient and insurance charges. In some aspects healthcare entities are charged for staff support services. Sponsored agreement receivables relate to sponsored

programs that support the Research Foundation. Accounts receivable is recorded net of estimated uncollectible amounts.

d. Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out (FIFO) basis.

e. Investments

Investments are stated at current market value. Investments held with the University of Louisville Foundation, Inc. (Foundation) are invested under the policies and objectives established for the Foundation's general endowment pool. In an effort to mitigate 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 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.

The Foundation invests in various corporate debt, equity and mutual fund securities. 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 such changes could materially affect the amounts reported in the Foundation's statements of financial position.

f. Capital Assets

Equipment and library books of the Research Foundation are stated at cost or, in the case of donated capital assets, estimated market value at date of receipt from donors.

Movable equipment costing \$5,000 and greater and having a useful life greater than one year are capitalized. Renovations to buildings, infrastructure and land improvements, if any, that significantly increase the value or extend the useful life of the structure and are in excess of \$100,000 are capitalized. Necessary and routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets as follows: library books - 10 years and equipment - 3 to 20 years. The Research Foundation capitalizes, but does not depreciate, works of art and rare books.

Prior to July 1, 2002 it was the policy of the University to record all capital assets purchased by the Research Foundation as property of the University.

g. Classification of Revenues

The Research Foundation 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 (1) clinical services, (2) grants and contracts, and (3) facilities and administrative cost recoveries.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as 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, such as investment income.

h. Net Clinical Services Revenue

The Research Foundation has agreements with third-party payers that provide for payments to the Research Foundation at amounts different from its established rates. Net clinical services revenue is 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.

i. Revenue Recognition

The Research Foundation receives revenues relative to sponsored agreements via grants, cooperative agreements, or contracts. The flow of funds relative to these sponsored agreements is in the form of cost reimbursement or advanced funding.

In the case of cost reimbursement, the Research Foundation incurs costs on behalf of the granting authority and is then reimbursed for such costs pursuant to the terms of the sponsored agreement. Grant revenues are recognized as reimbursable costs are incurred.

In the case of advanced funding, the Research Foundation receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor in the event the project is not completed to the sponsor's satisfaction. These funds, totaling approximately \$13.0 million and \$16.7 million at June 30, 2007 and 2006, respectively, are recorded in the Research Foundation's financial statements as deferred revenue.

j. Net Assets

Net assets of the Research Foundation are classified in three 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 expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Research Foundation, 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.

k. Government Grants

Support funded by grants is recognized as the Research Foundation 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.

l. Tax Status

As an affiliate of a state institution of higher education, the income of the Research Foundation 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 Research Foundation is subject to federal income tax on any unrelated business taxable income.

m. 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.

n. Reclassifications

Certain 2006 amounts have been reclassified to conform with the 2007 presentation. These reclassifications had no effect on the change in net assets.

2. Transactions with Related Organization - University of Louisville

a. University of Louisville

The University provides certain facilities and administrative services to the Research Foundation for a share of the facilities and administrative cost recoveries. The current agreement provides for a transfer of 80%, after certain deductions, of the amount realized. Transfers from the Research Foundation to the University for their portion of cost recoveries totaled \$10.4 million and \$9.7 million for the years ended June 30, 2007 and 2006, respectively.

In June 2005, the Research Foundation made a \$2.4 million unsecured, non-interest bearing loan to the University to support one-time projects to be initiated by the University during the fiscal year ended June 30, 2006. During each of the years ended June 30, 2007 and 2006, the University repaid approximately \$1.2 million. The Research Foundation had \$1.2 million due from the University at June 30, 2006, and no outstanding balance as of June 30, 2007.

b. University of Louisville Foundation, Inc. (Foundation)

The Foundation is a separate corporation organized as a supporting organization of the University for the purpose of promoting the University's educational, scientific, literary and cultural interests. As of June 30, 2007, the Foundation held funds of the Research Foundation of approximately \$4.3 million for investment purposes.

3. Investments

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.

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

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

4. Accounts Receivable, net

Accounts receivable, net as of June 30, 2007 and 2006 are summarized as follows and on the following page (in thousands):

	<u>2007</u>		
	<u>Gross</u>		<u>Net</u>
	<u>Receivable</u>	<u>Allowance</u>	<u>Receivable</u>
Patient care	\$ 12,860	\$ (4,278)	\$ 8,582
Sponsored agreements	19,685	(1,414)	18,271
Total	<u>\$ 32,545</u>	<u>\$ (5,692)</u>	26,853
Current portion			26,160
Noncurrent portion			<u>\$ 693</u>

	2006		
	Gross		Net
	Receivable	Allowance	Receivable
Patient care	\$ 11,817	\$ (3,757)	\$ 8,060
Sponsored agreements	16,446	(1,114)	15,332
Total	\$ 28,263	\$ (4,871)	23,392
Current portion			22,639
Noncurrent portion			\$ 753

5. Revenues From Clinical Services

a. Clinics and Laboratories

The University's School of Medicine operates various clinics, which generate revenues from the treatment of patients, as well as laboratory services. Revenues associated with the operations of these clinics totaled approximately \$67.9 million and \$57.1 million for the years ended June 30, 2007 and 2006, respectively.

b. University of Louisville School of Medicine Practice Plan (the Plan)

The Plan requires each clinical department of the University of Louisville School of Medicine to establish a departmental entity, which bears the financial obligation pursuant to the Plan. The departmental entity must receive contributions from the faculty practice groups and remit the contributions as specified in the Plan.

The faculty practice groups remit funds in two forms. The first portion, Academic Program Support, as defined in the Plan, is remitted directly to the Research Foundation to support the academic programs in the clinical departments. Academic Program Support remitted to the Research Foundation totaled approximately \$21.1 million and \$21.4 million for the years ended June 30, 2007 and 2006, respectively. The second portion, the Dean's Fund, as defined in the Plan, is collected by the University of Louisville Medical School Fund (Medical School Fund) from the departmental entities and is used by the Dean to provide additional support for the clinical, academic programs and other activities of the Medical School. Amounts remitted to the Research Foundation by the Medical School Fund totaled approximately \$3.6 million and \$3.4 million for the years ended June 30, 2007 and 2006, respectively.

c. University Medical Center, Inc. Affiliation 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 (the Hospital). The initial term of the affiliation agreement is 15 years with renewal periods as defined in the agreement. Effective June 15, 1997, an amendment to the affiliation agreement constituted an exercise of the first of three potential five-year renewal terms permitted by the February 6, 1996 agreement.

This agreement 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. Funding for residents will be a budget item annually determined and will take into account (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 from the Hospital for the years ended June 30, 2007 and 2006 was approximately \$23.3 million and \$19.4 million, respectively, is included in clinical services revenue. This agreement addresses the patient care needs of the Hospital's inpatients.

d. University Physicians' Group, Inc. (UPG)

Faculty of the School of Medicine also participate in UPG. UPG was established to operate the outpatient services located in the ambulatory care building on a more coordinated basis. The University historically had operated certain clinics, including the Primary Care Center, in the ambulatory care building. UPG assumed the budgetary responsibility and became the legal operator of the clinics in August 1999. On July 1, 2003, UPG transferred its clinical operations to the Medical School Practice Association (MSPA) doing business as University Physician Associates. At the same time, certain funding from the UMC affiliation agreement was transferred to the MSPA, along with funding received from the Medicaid HMO, Passport Health Plan (safety net funding).

The Medical School Fund, UMC, UPG, and MSPA are legally distinct organizations with separate governing bodies. Their financial statements are not included with those of the Research Foundation.

e. Other Clinical Revenues

The Research Foundation works with other area hospitals by providing support services, such as residents and other staff. Revenues associated with these activities totaled approximately \$28.4 million and \$57.1 million for the years ended June 30, 2007 and 2006, respectively.

6. Capital Assets, net

Capital assets at historical cost as of June 30, 2007 and 2006 are summarized as follows (in thousands):

	2007				
	Beginning Balance	Additions	Retire- ments	Transfers (to)/ from Affiliates	Ending Balance
Cost - Non depreciable					
Construction in progress	\$ 290	\$ 2,235		\$ (590)	\$ 1,935
Subtotal	290	2,235	\$ -	(590)	1,935
Cost - Depreciable					
Building	18,418	524	-	281	19,223
Equipment	29,037	8,768	(371)	70	37,504
Library materials	30	10	-	(21)	19
Subtotal	47,485	9,302	(371)	330	56,746
Total capital assets - cost	47,775	11,537	(371)	(260)	58,681
Accumulated depreciation					
Buildings	169	473	-	2	644
Equipment	11,265	6,380	(252)	5	17,398
Library materials	8	2	-	-	10
Subtotal	11,442	6,855	(252)	7	18,052
Capital assets, net	\$ 36,333	\$ 4,682	\$ (119)	\$ (267)	\$ 40,629
2006					
	Beginning Balance	Additions	Retire- ments	Transfers (to)/ from Affiliates	Ending Balance
Cost - Non depreciable					
Construction in progress	\$ 10,426	\$ 7,233		\$ (17,369)	\$ 290
Subtotal	10,426	7,233	\$ -	(17,369)	290
Cost - Depreciable					
Building	709	340	-	17,369	18,418
Equipment	20,998	7,906	(122)	255	29,037
Library materials	30	-	-	-	30
Subtotal	21,737	8,246	(122)	17,624	47,485
Total capital assets - cost	32,163	15,479	(122)	255	47,775
Accumulated depreciation					
Buildings	6	163	-	-	169
Equipment	6,646	4,675	(77)	21	11,265
Library materials	5	3	-	-	8
Subtotal	6,657	4,841	(77)	21	11,442
Capital assets, net	\$ 25,506	\$ 10,638	\$ (45)	\$ 234	\$ 36,333

7. Expenses

Operating expenses by natural classification for the years ended June 30, 2007 and 2006 were approximately (in thousands):

	<u>2007</u>	<u>2006</u>
Salaries and wages	\$ 147,801	\$ 132,714
Employee benefits	30,474	25,225
Supplies and services	94,624	86,984
Depreciation	6,855	4,841
Scholarships and fellowships	28,875	27,054
	<u>\$ 308,629</u>	<u>\$ 276,818</u>

8. Retirement Plan

University personnel participate in a contributory retirement plan. The Research Foundation recorded expenses related to the defined contribution plan of approximately \$8.4 million and \$7.5 million during the years ended June 30, 2007 and 2006, respectively.

9. Commitments and Contingencies

a. Commitments

At June 30, 2007 and 2006, respectively, the Research Foundation had approximately \$5.4 million and \$10.3 million 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 or the Research Foundation beyond the amounts already provided.

c. Government Grants

The Research Foundation 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.

10. Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. Based on actuary calculations, the University's actuarial accrued liability at July 1, 2007 is \$69.2 million and the annual required contribution will be \$8.4 million for the fiscal year ended June 30, 2008. It has not been decided how much of the liability or expense will be allocated to the Research Foundation.

11. Subsequent Events – University Medical Center, Inc.

Effective July 1, 2007, Jewish Hospital and Norton withdrew from membership in UMC, leaving the University as the sole member of the corporation. The University is considering the impact of the withdrawal on the financial statements of the University. This withdrawal is not expected to have any impact on the financial statements of the Research Foundation.