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

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

The University has three campuses. The Belknap Campus is three miles from downtown Louisville and houses eight of the University's twelve colleges and schools. The Health Sciences Center is situated in downtown Louisville's medical complex and houses the University's health related programs and the University of Louisville Hospital (Hospital). On the Shelby Campus, located in eastern Jefferson County, are the National Crime Prevention Institute, the Center for Predictive Medicine regional biosafety lab and the Division of Distance and Continuing Education. In recent years, the University has also offered expanded campus courses at both off-site and international locations.

a. Basis of Presentation

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

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

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the University reports the University of Louisville Foundation, Inc. and Affiliates (Foundation) and the University of Louisville Physicians, Inc. (ULP) as discretely presented component units. During 2014, the University changed its reporting entity to include ULP as a discretely presented component unit.

The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is intended to provide a comprehensive, entity-wide perspective of the University's assets, deferred outflow of resources, liabilities, deferred inflow of resources, net position, revenues, expenses, changes in net position and cash flows.

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

http://louisville.edu/finance/controller/univacct/finst-1

b. Cash and Cash Equivalents

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

unobservable inputs. There is a hierarchy of 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

Recurring Measurements

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, 2014 and 2013 (in thousands):

	2014			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market mutual funds	$ 1,644	$ 1,644		
Investments				
Preferred and common stock	50,808	48,170		$ 2,638
Corporate bonds	23,198	-	$ 23,198	-
Mutual funds	74,435	74,435	-	-
Investment in partnerships and funds of funds	472,280	-	279,496	192,784
U.S. government securities	3,709	-	3,709	-
Marketable alternatives	154,823	-	53,798	101,025
Funds held in trust by others	52,480	-	52,480	-
Restricted investments				
U.S. Treasury	1,285	1,285	-	-
Money market mutual funds	3,209	3,209	-	-
U.S. agency obligations	2,575	-	2,575	-

	2013			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market mutual funds	$ 108	$ 108		
Investments				
Preferred and common stock	81,746	79,721		$ 2,025
Corporate bonds	23,010	-	$ 23,010	-
Mutual funds	58,994	58,994	-	-
Investment in partnerships and funds of funds	415,227	-	183,469	231,758
U.S. government securities	187	-	187	-
Marketable alternatives	143,907	-	59,066	84,841
Funds held in trust by others	46,749	-	46,749	-
Restricted investments				
Money market accounts	2,914	2,914	-	-
U.S. agency obligations	2,559	-	2,559	-

Following is a description of the inputs and valuation methodologies and inputs used for assets 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. For assets classified as Level 3 of the fair value hierarchy, the process used to develop the reported fair value is disclosed below.

There have been no significant changes in the valuation techniques during the year ended June 30, 2014.

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, investments in partnerships, and investments in the common and preferred stock of certain business ventures, 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.

Fair value determinations for Level 3 measurements of securities are the responsibility of Foundation Financial Affairs (FFA). FFA contracts with a pricing specialist to generate fair value estimates on a monthly basis. The FFA's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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, 2014 and 2013. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation as the sole beneficiary of the majority of the trusts. Due to the nature of the valuation inputs, the 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. Treasury bond and 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.

Level 3 Reconciliation

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):

	Investment in partnerships and funds of funds	**Marketable alternatives**	**Preferred and common stock**
Balance, July 1, 2013	$ 231,758	$ 84,841	$ 2,025
Total realized and unrealized gains and losses	26,292	8,120	(1,668)
Purchases	19,011	21,025	2,077
Sales	(29,316)	(12,961)	-
Transfers	(54,961)	-	204
Balance, June 30, 2014	$ 192,784	$ 101,025	$ 2,638
Total gains/(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	$ 17,315	$ 8,144	$ (436)

	Investment in partnerships and funds of funds	**Marketable alternatives**	**Preferred and common stock**
Balance, July 1, 2012	$ 183,995	$ 129,469	$ 2,104
Total realized and unrealized gains and losses	19,609	10,575	(916)
Purchases	59,603	2,000	837
Sales	(41,252)	(16,786)	-
Transfers	41,899	(40,417)	-
Settlements	(32,096)	-	-
Balance, June 30, 2013	$ 231,758	$ 84,841	$ 2,025
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	$ 14,999	$ 10,487	$ (907)

Transfers in and out of Level 3 are attributable to changes in the underlying inputs from which the investment category is valued.

Realized and unrealized gains and losses included in change in net assets for the years ended June 30, 2014 and 2013, are reported in the consolidated statements of activities as follows (in thousands):

	2014	2013
Total gains	$ 32,743	$ 29,268
Change in unrealized gains or losses relating to assets still held at the consolidated statement of financial position date	$ 25,023	$ 24,579

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2014.

	Fair Value at 6/30/14	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Investment in partnerships and funds of funds	$ 192,784	Net asset value or equivalent	NAV	N/A
Marketable alternatives	101,025	Net asset value or equivalent	NAV	N/A
Preferred and common stock	2,638	Net asset value or equivalent	NAV	N/A

	Fair Value at 6/30/13	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Investment in partnerships and funds of funds	$ 231,758	Net asset value or equivalent	NAV	N/A
Marketable alternatives	84,841	Net asset value or equivalent	NAV	N/A
Preferred and common stock	2,025	Net asset value or equivalent	NAV	N/A

Fair Value of Financial Instruments

The following table presents estimated fair values of the Foundation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 21,537	$ 21,537	$ 27,303	$ 27,303
Loans receivable	16,178	16,178	2,008	2,008
Contributions receivable	31,099	31,099	21,812	21,812
Investments	795,311	795,311	738,446	738,446
Funds held in trust by others	52,480	52,480	46,749	46,749
Restricted investments	7,069	7,069	5,473	5,473
Financial liabilities				
Notes payable	44,147	45,803	53,187	53,187
Bonds payable	83,272	89,230	47,394	48,706
Funds held in trust for others	45,104	45,104	42,685	42,685
Annuities and unitrusts	4,747	4,747	4,899	4,899

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.

Loans Receivable:
The carrying amount approximates fair value.

Contributions Receivable:
Fair value is estimated using a discounted cash flow model.

Investments:
The carrying amount approximates fair value.

Funds Held in Trust for Others:
The carrying amount approximates fair value.

Restricted Investments:
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.

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.

4. Bonds Payable

Bonds and notes payable consist of the following at June 30, 2014 and 2013 (in thousands):

	Description	Fiscal Year of Maturity	2014	2013
Series 2005A (non taxable) - ULH	Principal payments of $270 to $1,010 are due annually beginning 6/1/16 through maturity, and interest is due monthly at fixed rates from 4% to 5%	2035	$ 13,815	$ 13,815
Series 2005B (taxable) - ULH	Principal payments of $170 to $390 are due annually through maturity, and interest is due monthly at a fixed rate of 4.91%	2016	560	900
Series 2009A (non taxable) - ULH	Principal payments of $445 to $900 are due annually through maturity, and interest is due semi-annually at fixed rates from 3.0% to 4.5%	2033	12,235	12,645
Series 2010A (non taxable) - ULH	Principal payments of $830 to $2,815 are due annually through maturity, and interest is due semi-annually at a fixed rates from 3.0% to 4.4%	2030	18,880	19,690
Series 2013 (taxable) - ULF	Principal payments of $500 to $2,450 are due annually through maturity, and interest is due semi-annually at fixed rates from 0.9% to 5.6%	2043	37,460	-
CDE Note "A" - TNRP	Fixed rate of .73% with quarterly interest only payments of $6 through December 2020 then quarterly principal and interest payments of $42 through maturity	2044	3,518	-
PNC CDE Note "B" - TNRP	Fixed rate of .73% with quarterly interest only payments of $3 through December 2020 then quarterly principal and interest payments of $18 through maturity	2044	1,482	-
NNMF Note "A" - TNRP	Fixed rate of .73% with quarterly interest only payments of $20 through December 2020 then quarterly principal and interest payments of $129 through maturity	2044	10,886	-
NNMF Note "B" - TNRP	Fixed rate of .73% with quarterly interest only payments of $7 through December 2020 then quarterly principal and interest payments of $45 through maturity	2044	3,964	-

	Description	Fiscal Year of Maturity	2014	2013
Note Payable - AAF	Variable rate, with principal payment at end of note	2014	-	8,192
Note Payable - KYT	Variable rate, 3.25% as of June 30, 2014 with principal payment at end of note	2014	12,500	12,500
Note Payable - KYT	Variable rate, 2.25% as of June 30, 2014 with principal payment at end of note	2014	7,000	7,000
Note Payable - ULF	Annually adjustable fixed rate, 6.24% as of June 30, 2014, with principal and interest payments due monthly	2020	1,326	1,532
Sapulpa Note Payable - ULF	Variable rate, 3.25% as of June 30, 2014, with principal and accrued interest payment due at the end of the note	2015	3,471	-
Line of Credit - Nucleus	Variable rate, unsecured	2013	-	4,120
Line of Credit - ULF	Variable rate, with interest payments due monthly, matured October 31, 2013	2014	-	19,843
Total bonds and notes payable			127,097	100,237
Plus unamortized premium			322	344
Bonds and notes payable, net			$ 127,419	$ 100,581

a. Bonds Payable - ULH

ULH's 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, 2014 and 2013 and mortgages on the respective properties.

b. Bonds Payable – ULF

In August 2013, the Foundation issued $37.5 million of University of Louisville Foundation, Inc. Taxable Fixed Rate Bonds Series 2013 at total interest cost of 4%.

$31.0 million of the proceeds were used for TNRP financing, of which $19.8 million was used to pay off the ULF construction line of credit. $4.1 million was used to pay off the Nucleus line of credit and $1.9 million was retained in a capitalized interest fund. The remaining proceeds were used for costs of issuance, underwriter's discount, and reserve balance funding for TNRP. Final maturity on the 2013 bonds is March 1, 2043.

ULF's 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, 2014.

c. Notes Payable - TNRP

TNRP, a qualified active low-income community business (QALICB), executed a loan agreement on September 12, 2013, that provides for borrowings totaling $5,000,000 from PNC CDE 28, LP (PNC) and $14,850,000 from NNMF Sub-CDE XX, LLC (NNMF).

The loans will finance the expansion and renovation of the TNRP building. The loans are secured by a property deed of trust and security agreement filing on the property and a guaranty by the Foundation for obligations under the loan agreement. TNRP's loan balance is $19,850,000 at June 30, 2014.

Under the terms of the loan agreements, the loans have an interest rate of 0.73 percent, payable quarterly to PNC and NNMF. TNRP is not permitted to prepay any portion of the principal of the loans until the seventh anniversary date. Commencing September 2020, TNRP will pay quarterly in arrears, equal installments of principal and interest in amounts sufficient to fully amortize the principal balances of the loans through the maturity date, December 31, 2043. Total interest expense on the notes from the period from inception through June 30, 2014 was approximately $116,000.

Under the terms of the loan agreement, TNRP has certain compliance requirements including compliance reporting and maintaining its status as a QALICB as defined by the Internal Revenue Code.

d. Notes Payable - AAF

In February 2012, AAF entered into a note payable with a financial institution to borrow $8.2 million to refinance two previous notes payable. The note bore a variable interest rate equal to the one-month London InterBank Offered Rate (LIBOR) as published in the Wall Street Journal plus 1.60%, with a minimum interest rate of 1.90% per annum. The note was paid in full in May 2014.

e. 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. In November 2013, KYT agreed to a modification and extension agreement with the financial institution. The extended note bears a variable interest rate equal to the prime rate, 3.25% at June 30, 2014, per annum, payable monthly. The principal is due in full November 2016.

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. In November 2013, KYT agreed to a modification and extension agreement with the financial institution. The extended note bears a variable interest rate equal to 2.25% through November 2014. Commencing on November 2014 and on each November thereafter through the term of the note, the interest rate shall equal 2% in excess of the financial institution's twelve month certificate of deposit rate. The principal is due in full November 2016.

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

f. 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.

g. Sapulpa Note Payable – ULF

In April 2014, the Foundation entered into a note payable with CF One, LLC to acquire 990 Class B units of Sapulpa Real Estate Holdings, LLC. The note bears a variable interest rate based on the prime rate. All principal and accrued but unpaid interest is due and payable on the earlier of April 2015 or the sale of the real property located in Sapulpa, Oklahoma. The note is secured by the Class B units.

h. Line of Credit – Nucleus

In February 2008, Nucleus assumed a $5.0 million line of credit agreement with a financial institution, which matured on January 15, 2014. The line was unsecured and guaranteed by the Foundation.

In September 2013, the Nucleus $4.1 million line of credit outstanding at June 30, 2013 was paid in full with proceeds received from the Foundation's $37.6 million taxable fixed rate bond offering.

i. Line of Credit – ULF

In January 2012, ULF entered into a construction line of credit agreement with a financial institution to borrow up to $31.0 million in relation to the construction of Nucleus Innovation Park. The line of credit bore an interest rate per annum equal to the Daily LIBOR rate plus 0.62%. Interest payments were due monthly, with final payment due in October 2013. The note was secured by a mortgage on the property.

In September 2013, the $19.8 million construction line of credit outstanding at June 30, 2013 was paid in full with proceeds received from the Foundation's $37.6 million taxable fixed rate bond offering.

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,	**Principal Due**
2015	$ 5,857
2016	2,491
2017	22,306
2018	2,907
2019	3,014
Thereafter	90,522
	$ 127,097

5. Guarantees

a. Bonds Payable

ULF is the guarantor of the ULH bonds payable. Amounts payable under the guaranty are limited as follows (in thousands):

Residence Hall		**Aggregate limit**		**Annual limit**
Bettie Johnson Hall	$	18,880	$	2,877
Kurz Hall		12,235		938
Community Park		14,375		1,156

b. Notes Payable and Line of Credit

ULF is the guarantor of the AAF and KYT notes payable and ULF was the guarantor of the Nucleus line of credit. As of June 30, 2014 and 2013, the outstanding principal related to the notes payable was $19.5 million and $27.7 million, respectively, and the outstanding principal related to the line of credit was $0 and $4.1 million as of June 30, 2014 and 2013, respectively.

In May 2013, ULF guaranteed $7.5 million of the University of Louisville Physicians, Inc. (ULP) $26.5 million line of credit maturing on June 30, 2014. In May 2014, ULF agreed to an extension and first amendment extending the guarantee to June 30, 2015. As of June 30, 2014, the principal amount outstanding was approximately $12 million.

In September 2013, ULF guaranteed $19.9 million of the TNRP notes payable. As of June 30, 2014, the outstanding principal related to the notes payable was $19.9 million.

c. Loans

As of June 30, 2014, ULF guaranteed four 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 of expenses and costs. The total amount approved for loans was approximately $1.6 million, with $1.3 million and $982,000 million outstanding, as of June 30, 2014 and 2013, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One, LLC. As of June 30, 2014 and 2013, the amount under guarantee was $8.8 million and $5.0 million, respectively.

In July 2013, ULF guaranteed 51% of the outstanding loan of Campus Two, LLC. As of June 30, 2014, the amount under guarantee was $3.4 million.

In May 2014, ULF guaranteed a portion of Pharmacognetics Diagnostic Laboratory, LLC (PGxL) loan. PGxL is owned by University faculty members. ULF's guarantee is a maximum of $3 million and calculated monthly on PGxL's accounts receivable borrowing base certificate. As of June 30, 2014, the amount under guarantee was $2 million. PGxL's loan expires July 2014.

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%, 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.

As of June 30, 2014 and 2013, the total amount outstanding on the Mortgage Revenue Bonds was $53.4 million and $59.7 million, respectively

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%.

6. 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 $21.5 million and $19.0 million as of June 30, 2014 and 2013, respectively. The Foundation's portion of the market value of the remaining trusts was approximately $31.0 million and $27.8 million as of June 30, 2014 and 2013, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2014 and 2013, the Foundation received income of approximately $2.2 million, from these trusts. These receipts are included in net realized and unrealized gain on investments.

7. 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, 2014 and 2013, the Foundation held approximately $34.3 million and $32.7 million for the Association's investment purposes, respectively.

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, 2014 and 2013, the Foundation held approximately $10.5 million and $9.7 million, respectively, for Jewish Hospital's investment purposes.

During the year ended June 30, 2011, the Foundation was the recipient of endowed funds, the income of which shall be used in support of the Louisville Orchestra. As of June 30, 2014 and 2013, the Foundation held approximately $0.3 and $0.2 million, respectively, for the benefit of the Louisville Orchestra.

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

c. University of Louisville Physicians, Inc.

ULP was established in August 2011 and is organized as a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University of Louisville School of Medicine (the School). ULP is organized and operates exclusively for educational, charitable and scientific purposes, within the meaning of Section 501(c)(3) of the Internal Revenue Code (IRC), by: [1] providing professional medical services in a variety of medical specialties and disciplines in accordance with ULP charitable mission: [2] strengthening and broadening the range of skills and patient populations available for physicians who are the School's faculty to carry on patient care, teaching and research; and [3] aiding and supporting the School and its clinical departments in the furtherance of their charitable, educational and scientific mission and activities. The physicians providing clinical services through ULP are organized into clinical departments which are identical to the clinical departments of the School. ULP provides medical care primarily to residents of Louisville and Jefferson County, Kentucky and surrounding areas.

Operations began on January 1, 2012, when the first two physician groups transitioned their practices into ULP. Through June 30, 2014, there were sixteen clinical departments integrated into ULP at various times.

Each clinical department was organized as one or more separate legal entities and each was integrated into ULP under a separate transition agreement. Typically, the agreements were structured as follows: ULP purchased certain significant fixed assets of the clinical departments in a manner similar to any other asset purchase and obtained various other employment agreements, licenses, permits, leases and contracts for no purchase price. The clinical departments retained various operating assets including cash, accounts receivable, benefit plan assets and other assets. ULP and each clinical department agreed on the preexisting debts of the clinical departments; some were transferred to ULP, some were retained by the clinical departments and others were paid-off or acquired by ULP and subsequently repaid by the clinical departments.

1. Charity Care

   ULP provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because ULP does not pursue collection of amounts determine to qualify as charity care, they are not reported as revenue. Charity care charges totaled $2.3 million and $3.7 million for the years ended June 30, 2014 and 2013, respectively. Management as estimated its cost incurred to provide charity care to be approximately $1.0 million and $1.6 million for the years ended June 30, 2014 and 2013, respectively.

2. Investment in Kentuckiana Medical Reciprocal Risk Retention Group

   During the year ended June 30, 2014, and in accordance with the Assignment and Assumption Agreement, ULP was assigned the full interest in the investment of Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG) formerly held by UPA. The value of the investment at the time of assignment was $10.8 million consisting of a $0.3 million capital investment in a paid-in surplus account and $10.5 million in an accumulated subscriber savings account. KMRRRG is ULP's carrier for liability insurance coverage and is a reciprocal captive risk retention group. The limit of ULP's liability, pursuant to the subscribers' agreement, is the initial capital investment and the annual premiums it pays for coverage.

   ULP's capital investment represents 6.12% of KMRRRG's startup capital. The investment in KMRRRG is accounted on the equity method, which as of June 30, 2014 was $11.6 million. KMRRRG's income and losses are allocated to each participating subscriber based on each subscriber's pro rata share of annual premiums paid.

   Should ULP withdraw from KMRRRG, a portion of its investment in KMRRRG may, as determined by a Subscribers' Advisory Committee, be retained by KMRRRG to cover ULP's allocation of losses for up to five years. Any repayment of ULP's investment by KMRRRG must also be approved by the Kentucky Department of Insurance.

   The investment in KMRRRG is accounted for on the equity method of accounting under which ULP's share of KMRRRG's net income (loss) is recognized in the statements of activities and added to (deducted from) the investment account. Dividends received from KMRRRG are treated as a reduction of the investment account. Management has concluded that the equity method of account for this investment is appropriated because it participates in the management of KMRRRG and has the ability to significantly influence the operating and financial policies of KMRRRG and because ULP's membership is considered more than a nominal share of the KMRRRG.

3. Line of Credit

   ULP has a line of credit with a variable interest rate at the one month LIBOR rate (.15% at June 30, 2014) plus 2.65% per annum with an available balance of $15.0 million and an expiration date of November 28, 2014. Beginning June 1, 2013, ULP was required to pay a monthly commitment fee to the lender equal to 0.50% per annum on the average daily balance of the line of credit.

   The line of credit had an outstanding balance of $12.3 million and $12.0 million as of June 30, 2014 and 2013, respectively.

The Foundation, unconditionally guarantees $7.5 million on the line of credit. In addition, the line of credit is secured by a pledge of all revenues derived by the University pursuant to a grant agreement and the stimulus income as well as all bank deposits and accounts receivable. There are various financial and nonfinancial covenants associated with the line of credit. The financial covenant became effective for the year ended June 30, 2014 and requires ULP to maintain a minimum debt service coverage ratio. The financial covenant was not met for the year ended June 30, 2014; however, the bank intends to waive the default and renew the line of credit.

As of September 17, 2014, management is in the process of negotiating an extension and expects the line of credit to be renewed prior to maturity at terms similar to those disclosed above.

4. Long-term Debt

Long-term debt obligations consisted of the following as of June 30, 2014 and 2013 (in thousands):

	2014	2013
Settlement payable to University Health Care, Inc. d/b/a/ Passport Health Plan (Passport), interest at 2.8%, due in monthly principal and interest installments of $150 through June 30, 2016	$ 3,497	$ 5,155
Promissory note to the University of Louisville School of Medicine, interest at 3.0% per annum, due in quarterly principal and interest installments of $131, with unpaid balance due October 1, 2015. This note is unsecured.	768	1,260
Note payable to the University of Louisville School of Public Health and Information Sciences, interest at 5.0% per annum. The note proceeds were used to provide a recruitment bonus to a physician and matures in April 2018. Payments are to be made after the physician reimburses ULP.	280	280
Total long-term debt	4,545	6,695
Less current portion	2,233	2,240
Long-term debt, net of current portion	$ 2,312	$ 4,455

Scheduled principal repayments on long-term debt for each of the years ending June 30, are as follows (in thousands):

2015	$ 2,233
2016	2,032
2017	-
2018	280
	$ 4,545

5. Net Patient Service Fees Revenue

ULP has agreements with third-party payers that provide for payments at amounts different from their established rates. Contractual adjustments represent the difference between billing at established rates and amounts reimbursed by third-party payers.

A summary of gross and net professional clinical service fee revenue as of June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Gross patient service revenue	$ 312,571	$ 252,066
Less provisions for:		
Contractual adjustments under third-party reimbursement programs	(143,468)	(135,255)
Provision for uncollectible accounts	(78,011)	(48,011)
	(221,479)	(183,266)
Net patient service revenue	$ 91,092	$ 68,800

6. Related Party Transactions

The University, Foundation, Research Foundation, University Physicians' Associates (UPA), the University Medical Center, Inc. (UMC), and ULP are related through various contractual arrangements and by certain Board affiliations.

ULP receives funding from a number of the related parties noted above. The amount of funding received from related parties for the years ended June 30, 2014 and 2013 are summarized as follows (in thousands):

Funding Source	**2014**	**2013**
Grant agreements with the Executive Vice President for Health Affairs (EVPHA) of the University on behalf of its School of Medicine to aid in development, start-up and operation of ULP	$ 16,559	$ 13,849
Support agreements with University of Louisville Hospital for support of the resident training clinics that provide follow-up ambulatory care for patients discharged from the University of Louisville Hospital and several hospital based practices	7,978	2,440
Support agreements provided by the University to support practice overhead.	6,441	1,820
UPA subsidy to assist with staffing costs	208	622
Academic programmatic support	2,586	3,660

The receivables balances from University of Louisville Hospital for contracted services were $1.9 million and $1.2 million at June 30, 2014 and 2013, respectively.

ULP paid-off or acquired certain outstanding debts of incoming practices that entered ULP in 2013. The receivables from related parties on the statements of financial position includes the obligations of these clinical departments to ULP for these transactions. The balance of these receivables was approximately $0.1 million and $0.8 million at June 30, 2014 and 2013, respectively. The receivables do not accrue interest and are repaid as excess revenue is generated by the clinical department.

At June 30, 2014 and 2013, ULP had related party accounts payable balances of $2.1 million and $0.3 million, respectively.

ULP leases two office spaces on a month-to-month basis from entities controlled by employed physicians. Total rent paid to the entities was approximately $77 thousand and $52 thousand for the years ended June 30, 2014 and 2013, respectively. In addition, ULP leased office space from UMC for various clinical activities in the first six months of 2014, as well as all of 2013. Total rent paid for the six months ended December 31, 2014 was approximately $189 thousand and for the year ended June 30, 2013 was approximately $378 thousand. In January 2014, as part of the Academic Affiliation Agreement, the building in which ULP had previously leased space from UMC was returned to the stewardship of the University. ULP continued to lease the same space for the remainder of 2014 from the University. Total rent paid for the six months ended June 30, 2014 was approximately $128 thousand.

d. OMHS/U of L Cancer Research Center, Inc.

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

Although the joint venture is owned 50% by Owensboro Medical Health System, Inc. and 50% by the University, the University has control of the Board of Directors of the Center. The University has determined that if the financial activity of the Center was material, it should be a discretely presented component unit; however, as of June 30, 2014 and 2013 the Center does not have material operations to be presented.

12. Risk Management

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

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $250 and $300,000 per occurrence. Losses in excess of $300,000 are insured by commercial carriers up to $200 million per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2013 to 2014. Settlements have not exceeded insurance coverage during the past three years.

University medical and dental students, residents, and most School of Medicine faculty are insured against medical malpractice by a captive liability insurer. Other faculty, agents, and certain non-physician employees are insured against medical malpractice by commercial insurance. The University also has the benefit of an excess coverage fund established by the Commonwealth of Kentucky.
The University is self-insured for the medical benefits provided to employees. The cost of such self-insured benefits provided during the years ended June 30, 2014 and 2013, respectively, was approximately $57.8 million and $54.0 million, including $5.0 million and $4.5 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2014 and 2013 (in thousands):

	2014	**(Restated) 2013**
Salaries and wages	$ 457,190	$ 451,874
Employee benefits	118,459	115,640
Utilities	21,028	20,007
Scholarships and fellowships	34,156	32,826
Depreciation	56,333	55,311
Supplies and other services	183,506	181,349
	$ 870,672	$ 857,007

14. Retirement Plans

a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. This plan was established by the University and approved by the Board of Trustees. Eligible employees not contributing to the plan are entitled to a 7.5% of base salary contribution on their behalf by the University. The University also matches up to an additional 2.5% of employee contributions. The plan requires three years of continuous service for employees to vest in employer contributions.

Other information relating to this plan for the years ended June 30, 2014 and 2013 is presented as follows (in thousands):

	2014	**2013**
Total University payroll	$ 473,280	$ 455,489
Total payroll covered by the plan	460,157	436,894
Employee contributions	25,824	22,320
University contributions	32,977	32,949

b. Prior Service Defined Benefit Program

Effective July 1, 1977, the University entered into an agreement with Teachers Insurance Annuity Association (TIAA) to fund, over approximately 30 years, the prior service defined benefit program for both currently retired and eligible actively employed participants. There were no annual required contributions for the year ended June 30, 2014 and June 30, 2013. Subsequent annual contributions under this agreement are subject to periodic actuarial re-evaluations to reflect changes in the consumer price index, interest rates and group experience performance.

The most recent comparison of the accumulated plan benefits and plan net assets, as determined by TIAA, as of June 30, 2014 and 2013 follow (in thousands):

	2014	**2013**
Actuarial present value of non-vested accumulated plan benefits	$ 1,587	$ 1,747
Net assets available for benefits	$ 1,928	$ 2,109
Net pension surplus	$ (341)	$ (362)
Funded ratio	121%	121%

The actuarial present value of plan benefits is non-vested because the plan and benefits provided there under are at all times at the discretion of the University. The net pension surplus represents the amount of net assets available for benefits in excess of the actuarial liability. The assumed rate of return used to determine the present value of accumulated non-vested benefits was 6.0% for each of the years ended June 30, 2014 and 2013, for preretirement and postretirement periods.

15. Postemployment Healthcare Benefits

a. Plan Description

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

Effective July 1, 2012, the life insurance benefit was restructured to be priced as a fully insured supplemental benefit for which the retirees pay 100% of the cost, so no obligation is assumed after the fiscal year ended June 30, 2012.

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. During the years ended June 30, 2014 and 2013, the University contributed approximately $1.7 million and $1.0 million, approximately 68% and 56% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million, approximately 32% and 44% of total premiums for the years ended June 30, 2014 and 2013, respectively, through their required monthly contributions according to the schedules below:

2014					
	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low
Employee	$ 389	$ 459	$ 431	$ 279	$ 208
Employee and Spouse	$ 763	$ 868	$ 850	$ 583	$ 451

2013					
	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low
Employee	$ 389	$ 419	$ 431	$ 279	$ 208
Employee and Spouse	$ 763	$ 828	$ 850	$ 583	$ 451

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2014 and 2013, the University contributed $1.3 million and $1.2 million for Medicare-eligible retirees, respectively.

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

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

The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation (in thousands):

	2014	2013
Normal cost	$ 4,188	$ 4,190
AAL amortization	4,789	4,693
Annual required contribution (ARC)	8,977	8,883
Interest on above	994	717
Adjustment to ARC	(1,362)	(880)
OPEB liability gain	(1,792)	(3,244)
Annual OPEB cost (AOC)	6,817	5,476
Contributions made	(3,048)	(2,221)
Increase in net OPEB obligation	3,769	3,255
Net OPEB obligation - beginning of year	27,300	24,045
Net OPEB obligation - end of year	$ 31,069	$ 27,300

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 6,817	45%	$ 31,069
2013	5,476	41%	27,300
2012	3,337	61%	24,045

d. Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $85.3 million and $82.3 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of $85.3 million and $82.3 million as of June 30, 2014 and 2013, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.0 million and $426.8 million, and the ratio of the UAAL to the covered payroll was 19%, for each of the years ended June 30, 2014 and 2013.

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

e. Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3 percent investment rate of return (net of administrative expenses), which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 12 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2014 and 2013 were due to updates made on expected future health claims and changes made to the retiree life insurance benefit. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2014 was 23 years.

16. Health Science Center Affiliations and Agreements

a. KentuckyOne Healthcare, Inc. Affiliation, Lease and Operating Agreement

In November 2012, the University, Commonwealth, UMC, and KentuckyOne Health, Inc. (KentuckyOne) amended and restated the UMC land lease and executed a new academic affiliation agreement, superseding the one dated July 1, 2007. The initial term is twenty years, beginning on the Integration Date, which was March 1, 2013.

The agreement calls for, among other things, a strategic programmatic investment fund and plan. KentuckyOne will invest $95.0 million in key University clinical service lines and departments and $40.0 million in academic and programmatic investment in clinical services lines at Jewish Hospital and St. Mary's Healthcare, Inc. (Jewish Hospital) facilities. An additional $3.0 million per annum for twenty years will be made available for research. As of June 30, 2014, the University received $16.0 million and $2.8 million related to the strategic programmatic investments and research initiatives, respectively. As the University has not yet expended the funds in accordance with the proposals, $8.3 million is included in current advances and $10.5 million is included in noncurrent advances in the statement of net position as of June 30, 2014. During the year ended June 30, 2014, the University received $7.5 million for discretionary purposes to support key statewide areas of focus. This amount is included in clinical services and practice plan revenues in the statement of revenues, expenses, and changes in net position.

The agreement also calls for, among other things, KentuckyOne to provide funding (salary, benefits and malpractice coverage) for certain full-time equivalent resident positions over the term of the affiliation agreement. Annually, KentuckyOne determines the number of resident positions it will fund based upon (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital and (c) the clinical load at the Hospital and related facilities. Funding levels for the years ended June 30, 2014 and 2013 were $50.5 million and $47.8 million, respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net position.

Concurrently with the academic affiliation agreement, KentuckyOne entered into a joint operating agreement with UMC, the Hospital's operator prior to March 1, 2013. KentuckyOne agreed to be the sole and exclusive agent acting for and on behalf of UMC to provide the day-to-day management of the University Hospital, with the exception of the Maintained Procedures, as defined in the agreement. The agreement calls for KentuckyOne to make annual payments of $12.5 million to the University, with final payments subject to financial performance measures. The annual adjustment is tied to a threshold level of surplus or deficit of net operating income compared to the KentuckyOne board-approved budget, with a range of not less than $7.5 million and not more than $17.5 million. The accompanying statements of revenues, expenses, and changes in net position include approximately $7.5 million and $2.5 million for the years ended June 30, 2014 and 2013 in clinical services and practice plan revenues related to the joint operating agreement.

Concurrently with the academic affiliation agreement and joint operating agreements, the Commonwealth and the University as lessor amended and restated the lease agreement with UMC to lease the Hospital. The annual lease payment is $6.5 million through December 31, 2016. At that time, the annual rent escalates by $500,000 and will continue to escalate every five years thereafter up to $8.0 million. Included in the joint operating agreement is a provision that $5.0 million of the annual rent payment will flow to the Quality and Charity Care Trust. The lease provides for additional rent each year to be adjusted annually commensurate with the increase or decrease in the utilities and other operating expenses of the leased property. The University is required to pay KentuckyOne any amounts related to the utilities and other operating expenses collected from third parties. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was $4.4 million and $1.5 million for the years ended June 30, 2014 and 2013, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Lease expense for the year ended June 30, 2014 was $1.1 million and is included in public service expense in the statements of revenues, expenses, and changes in net position.

The accompanying statements of net position include approximately $3.6 million and $3.0 million in accounts receivable for the years ended June 30, 2014 and 2013, respectively, representing amounts due from UMC pursuant to the lease agreement.

The above agreements address the patient care needs of the Hospital's inpatients. The University's School of Medicine operates various clinics, which generate patient care revenues from the treatment of outpatients as well as laboratories that serve both inpatients and outpatients. In June 1997, UMC, pursuant to the 1997 Affiliation and Lease Agreement, issued $85 million of Health Facilities Revenue Bonds (the Series 1997 Bonds), which were secured in part by a pledge of the revenues of the Hospital. In the opinion of counsel to the University, the security interest in the pledged revenues of the Hospital granted to the University is enforceable in accordance with its terms.

Prior to March 1, 2013, the affiliation agreement called for, among other things, UMC to pay the University its annual Surplus Cash Flow calculated in a statement of cash flows prepared by UMC in accordance with accounting principles generally accepted in the United States of America. Revenues reflected in the accompanying financial statements relative to this item was approximately $12.8 million for the fiscal year ended June 30, 2013, and are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position.

b. Quality and Charity Care Trust Transfers for Hospital Operations

In November 2012, the University entered into The Revised Quality and Charity Care Trust agreement with the Commonwealth, Jefferson County, the Louisville Metro Government, and UMC for the purpose of providing medically necessary hospital care, both inpatient and outpatient, to indigent patients in the Louisville area. The Quality and Charity Care Trust, Inc. receives government funds and disburses them for Trust operations in accordance with the terms of the agreement.

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

The University and the Commonwealth selected UMC, a Kentucky non-profit corporation, as the provider of the healthcare services through the Hospital. Under the November 2012 joint operating agreement, KentuckyOne agreed to manage the Hospital in a manner consistent with the Revised Quality and Charity Care Trust Agreement. Funding of $29.8 million and $29.6 million for the years ended June 30, 2014 and 2013, respectively, provided by the Commonwealth and Louisville Metro Government is held for the Trust by the University and paid to UMC as specified in the Trust agreement. This funding is not included in the statements of revenues, expenses and changes in net position as it is a pass-through to UMC.

c. Cardiovascular Innovation Institute

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

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

17. Leases

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

a. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building. The University's rights under this agreement have been assigned to the Association. The lease has an initial term of 26 years, ending June 30, 2023. Annual lease payments range from $25 thousand to $67 thousand. Total lease expense for each of the years ended June 30, 2014 and 2013 amounted to approximately $61 thousand and $55 thousand, respectively.

b. Central Station, LLC

The Association has entered into a lease agreement with AAF-Louisville, LLC (d/b/a Central Station, LLC), a related party, for use of the Central Station Office Building. The lease has an initial term of 21 years, ending September 30, 2026. Annual lease payments started at approximately $47 thousand, and are subject to increases based on increases in the CPI. Total lease expenses during the years ended June 30, 2014 and 2013 amounted to approximately $106 thousand and $83 thousand, respectively.

c. Louisville Arena Authority, Inc.

In July 2008, the Association entered into a lease agreement with the Arena Authority. The lease has an initial term of 36 years. Annual lease payments are equal to the greater of 10% of gross ticket sales or a minimum lease amount of $10 thousand per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of $5 thousand for any other Association sponsored event; and, as payment for private suites, 12% of net private suite revenue. Total lease expense during the years ended June 30, 2014 and 2013 amounted to approximately $3.5 million and $3.4 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during each of the years ended June 30, 2014 and 2013 amounted to approximately $0.5 million.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50% of all payments received from third-party concessionaire and catering sales at all

University-sponsored events or 25% of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50% of all rental/commission payments received in connection with the gift shop and its operations, and 50% of any additional merchandise revenue received from any source other than the gift shop; (c) 50% of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3% of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage. Total lease revenue during the years ended June 30, 2014 and 2013 amounted to approximately $2.2 million and $2.1 million, respectively.

d. Future Minimum Lease Payments

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

For the year ending June 30,	Lease Payment Due
2015	$ 665
2016	568
2017	568
2018	505
2019	436
2020-2024	2,115
2025-2029	1,616
2030-2034	1,425
2035-2039	1,425
2040-2044	1,425
Future minimum lease payments	$ 10,748

18. Restatement of Prior Years' Financial Statements

The University's audited financial statements for June 30, 2013, issued on October 2, 2013 have been restated to properly reflect expenses previously included in capital assets and amounts receivable from third parties not previously included in revenue. These restatements resulted in a net decrease of $3.0 million in net position as of July 1, 2012 and an increase in the decrease in net position of $4.0 million for the year ended June 30, 2013.

19. Commitments and Contingencies

a. Commitments

At June 30, 2014, the University had approximately $28.0 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 coverage and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University beyond the amounts already provided.

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

c. Government Grants

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

20. Recent Accounting Pronouncements

GASB has issued additional standards, Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The University does not believe the implementation of these standards will significantly impact the financial statements.

21. Subsequent Event

As discussed in Note 4, in June 2014, the University entered into a Memorandum of Agreement with the Foundation to loan a total of $29.0 million to the Foundation. As of September 2014, the University has transferred the total amount to the Foundation.

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

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabaility (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/2013	$ -	$ 85,282	$ 85,282	0%	444,970	19%
7/1/2012	-	82,260	82,260	0%	426,752	19%
7/1/2011	-	79,912	79,912	0%	416,016	19%