

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

**Auditor's Report and Financial Statements
June 30, 2016 and 2015**

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Louisville and Affiliated Corporations (the University), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of Louisville Physicians, Inc. (ULP), the University of Louisville Real Estate Foundation, Inc., (ULREF) and University of Louisville Foundation, Inc. and Affiliates (the Foundation), which make up the entire aggregate discretely presented component units of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for ULP, the Foundation and ULREF is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of ULP, the Foundation and ULREF were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University, as of June 30, 2016 and 2015, and the respective changes in financial position and where applicable, the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As disclosed in Note 1, during 2016 the University elected to change its reporting to include the University of Louisville Real Estate Foundation, Inc. as a discretely presented component unit. This change was made retroactively to July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis on pages 3 through 14 and the Post-employment Benefit Information on page 84 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the University of Louisville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Louisville's internal control over financial reporting and compliance.



Crowe Horwath LLP

Louisville, Kentucky
November 18, 2016

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville and Affiliated Corporations (the University) for the years ended June 30, 2016, and 2015. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association, Inc. (Association). This discussion contains highly summarized data and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Using the Financial Statements

The University's financial report includes three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements have been prepared by University management in accordance with the Governmental Accounting Standards Board (GASB) principles.

The Statements of Net Position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the University at a point in time (June 30, 2016, 2015 and 2014). Net position (the difference between total assets, total liabilities, total deferred outflows of resources and total deferred inflows of resources) provides a snapshot of the current financial condition of the University at the end of a fiscal year. The change in net position indicates whether the overall financial condition has improved or worsened during the year. Assets, liabilities, deferred outflows of resources and deferred inflows of resources are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less accumulated depreciation.

The Statements of Revenues, Expenses, and Changes in Net Position present the total revenues earned and expenses incurred by the University during the fiscal year(s). The statements depict the major revenue streams of the University and expense categories supported by that revenue. Changes in net position indicate an improvement or decline of the University's financial condition for the period of time illustrated.

The Statements of Cash Flows present cash inflows and outflows for each fiscal year. The statement reports major sources and uses of cash and assists with the assessment of the ability of the University to meet its obligations when due.

See footnote 1 for a summary of significant accounting policies.

Statements of Net Position

The statements of net position present the financial position of the University at the end of the fiscal year and include all assets, liabilities, deferred outflows of resources and deferred inflows of resources of the University. The University's assets, liabilities, deferred outflows of resources, deferred inflows of resources and net position at June 30, 2016, 2015 and 2014 are summarized on the following page:

Condensed Statements of Net Position
June 30, 2016, 2015, and 2014
(In Thousands)

| | 2016 | 2015 | 2014 | 2016 - 2015 Change | 2015 - 2014 Change |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------------------------|-------------------------------------|
| ASSETS | | | | | |
| Current assets | \$ 232,242 | \$ 239,699 | \$ 194,306 | \$ (7,457) | \$ 45,393 |
| Long-term investments | 27,940 | 37,912 | 54,718 | (9,972) | (16,806) |
| Capital assets, net | 868,398 | 864,686 | 876,058 | 3,712 | (11,372) |
| Other | 97,248 | 72,122 | 74,340 | 25,126 | (2,218) |
| Total assets | <u>1,225,828</u> | <u>1,214,419</u> | <u>1,199,422</u> | <u>11,409</u> | <u>14,997</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>6,967</u> | <u>851</u> | <u>957</u> | <u>6,116</u> | <u>(106)</u> |
| LIABILITIES | | | | | |
| Current liabilities | 187,106 | 174,602 | 179,620 | 12,504 | (5,018) |
| Noncurrent liabilities | 326,023 | 330,417 | 322,071 | (4,394) | 8,346 |
| Total liabilities | <u>513,129</u> | <u>505,019</u> | <u>501,691</u> | <u>8,110</u> | <u>3,328</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>175</u> | <u>3,671</u> | <u>4,881</u> | <u>(3,496)</u> | <u>(1,210)</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 632,789 | 612,364 | 611,785 | 20,425 | 579 |
| Restricted-nonexpendable | 1,633 | 1,791 | 1,656 | (158) | 135 |
| Restricted-expendable | 92,008 | 80,099 | 75,927 | 11,909 | 4,172 |
| Unrestricted | (6,939) | 12,326 | 4,439 | (19,265) | 7,887 |
| Total net position | <u>\$ 719,491</u> | <u>\$ 706,580</u> | <u>\$ 693,807</u> | <u>\$ 12,911</u> | <u>\$ 12,773</u> |

Assets

Current assets consist primarily of cash; loans, accounts and contributions receivable; and short-term investments.

In fiscal year 2016, current assets decreased \$7.5 million, reflecting the decrease in short-term investments of \$9.8 million, and cash and cash equivalents of \$8.2 million partially offset by the increase of \$9.8 million in loans, accounts and contributions receivable, net. The decrease in cash and short term investments is the result of normal operations that saw an increase in almost all expense categories (see discussion below on operating expenses). The increase in loans, accounts and contributions receivable, net relates to an increase of \$4.4 million in the amount receivable from insurance carriers for Medicaid patients treated in University clinics and \$2.8 million representing the restoration of a 2 percent cut in state appropriation.

In fiscal year 2015 current assets increased \$45.4 million, reflecting the increase in cash and cash equivalents of \$56.1 million offset by decreases in loans, accounts and contributions receivable (net) of \$6.6 million and due from the Foundation of \$5.9 million. Cash increased due to the receipt of \$33.8 million of strategic funding from KentuckyOne Health, the net sale of investments totaling \$13.2 million, and cash realized from \$7.0 million in proceeds from the issuance of long-term liabilities.

As of June 30, 2016, the \$12.3 million in current assets owed to the University by the Foundation includes \$10.4 million committed from a tax increment financing arrangement and \$1.9 million to reimburse June 2016 endowment and gift disbursements made by the University. The amount owed by the Foundation as of June 30, 2015 includes \$5.5 million for disbursements made by the University on behalf of the Foundation and \$4.1 million committed from a tax increment financing arrangement.

Capital assets, net of accumulated depreciation, represent 71% of total assets. Other noncurrent long-term

investments, noncurrent loans, accounts and contributions receivable and restricted cash and cash equivalents comprise the remainder of assets.

Noncurrent assets increased \$18.9 million: this includes, increases in restricted cash and cash equivalents of \$11.0 million for construction projects and the balance owed by the University of Louisville Real Estate Foundation (ULREF) of \$9.8 million on an outstanding loan. Restricted cash and cash equivalents increased \$11.0 million due to funds transferred to fund construction projects and the receipt of \$7.8 million of capital appropriation to fund the Belknap Research & Technology Park capital project, partially offset by progress payments to contractors. The amount due from the ULREF of \$9.8 million is the balance owed on the June 2015 loan of \$38.0 million to the ULREF. Decreases in noncurrent assets are attributable to a decrease of \$5.3 million in other long-term investments of working capital in U.S. agencies obligations or other government obligations that matured and were not reinvested, and \$4.6 million in investments held with the Foundation by the Athletic Association. The decrease in investments held with the Foundation by the Athletic Association is the result of a decline in market value.

In fiscal year 2015, noncurrent assets decreased \$30.4 million, including decreases in other noncurrent long-term investments of \$16.8 million and capital assets (net) of \$11.4 million. The decrease in capital assets (net) relates to depreciation additions which exceeded asset additions by \$9.6 million and a net loss on disposal of retired assets of \$1.8 million, primarily due to the demolition of certain residence halls for new construction.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net assets applicable to a future period. The University reports as deferred outflows of resources the loss on refunding of the Consolidated Educational Building Revenue Bonds (CEBRB) Series N and Series O by the issuance of General Receipts Bonds 2012 Series A and the loss on refunding the County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997 by the issuance of Metro Government Revenue Refunding and Improvement Bonds, Series 2008A. These deferred outflows decreased \$0.2 million relating to its recognition as expense. During the fiscal year 2016 the University refunded CEBRB Series P, and General Receipts Bonds Series 2007A, 2008A and 2010A by the issuance of General Receipts Bonds Series 2016 Series A, Series B and Series C resulting in a loss on refunding totaling \$5.9 million, an addition to deferred outflows. The University also reports the value of an interest rate swap entered into as a part of a term loan received in June 2013. A decrease in the value of the swap resulted in an addition to deferred outflows of \$0.3 million. In fiscal year 2015, the decrease of \$0.1 million relates to the recognition of \$0.2 million of deferred loss on refunding as expense partially offset by the increased deferred outflow from the reduced value of the interest rate swap.

Liabilities

Accounts payable and accrued liabilities, and advances for payment received but unearned, comprise 87% of total current liabilities. In fiscal year 2016, the \$12.5 million increase in current liabilities relates primarily to an \$8.6 million increase in advances from KentuckyOne Health expected to be invested over the next year as per the University-KentuckyOne Health Academic Affiliation Agreement (Academic Affiliation Agreement). In fiscal year 2015 a \$5.0 million decrease in current liabilities related primarily to the \$7.7 million decrease in accounts payable and accrued liabilities. Accounts payable and accrued liabilities decreased as a result of payment of benefits related to a voluntary separation incentive program and completion of construction projects of the Athletic Association.

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. In fiscal year 2016 the \$4.4 million decrease in noncurrent liabilities is due to the decrease in bonds and notes payable. Bonds, notes and leases payable decreased for maturities totaling \$103.5 million partially offset by additions during the year of \$99.6 million. In fiscal year 2015 the \$8.3 million increase

in noncurrent liabilities relates primarily to the \$20.2 million increase in advances offset by the \$15.2 million decrease in bonds and notes payable. Advances increased for unspent funding received from KentuckyOne Health under the Academic Affiliation Agreement. Bonds and notes payable decreased for principal maturities during the year.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to future periods. This includes the fair value of a forward delivery agreement for the investment of debt service reserves related to the Athletic Association. As the derivative is considered to be effective in the reduction of risk, the change in fair value is shown as a deferred inflow of resources. In fiscal year 2016, the fair value of the forward delivery agreement decreased \$63,000. In fiscal year 2015, the fair value of the forward delivery agreement decreased \$66,000.

Service concession arrangements that are reflected as deferred inflows of resources represent the net of investments and contributions provided by agreement with the University's food service provider. In fiscal 2016 the University re-bid its food service contract and selected a new provider. Due to the termination of the existing food service provider's contract, the remaining \$3.4 million previously reflected as a deferred inflow of resources was reflected as revenue.

Net Position

The University's net position is summarized into four major categories in accordance with GASB Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* reporting requirements as amended by GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as follows:

- *Net Investment in Capital Assets* represents the University's investment in capital assets such as land, buildings, equipment and depreciable library materials, net of accumulated depreciation, related deferred outflows of resources reduced by related deferred inflows of resources and debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted-nonexpendable* funds include amounts that are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. These balances are the permanent endowment for scholarships and other purposes.
- *Restricted-expendable* funds are those that are subject to externally imposed restrictions governing their use for a particular purpose or period of time. The University's most significant components in this category consist of amounts restricted for capital projects debt service, research, and public service.
- *Unrestricted* net position results primarily from net operating income in excess of expenses. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for various academic programs, research initiatives, and capital projects.

For fiscal year 2016 net position increased \$12.9 million as compared to June 30, 2015. Operating revenues increased \$41.2 million from the following sources: Clinical services and practice plan revenue increased by \$16.9 million or 7%, including a \$9.0 million increase in Medicaid related patient revenue and intergovernmental transfers and an increase of \$8.2 million in revenue from the Academic Affiliation Agreement with KentuckyOne Health strategic investments. Nongovernmental and Federal grants and contracts revenue increased \$10.5 million and \$5.5 million, respectively, reflecting increases in awards. Offsetting these increases in operating revenue, operating expenses for fiscal year 2016 increased by

\$46.3 million (5%) including \$18.3 million in institutional support and \$14.6 million in public service. These increases are mainly the result of increases of \$13.1 million of administrative expenses formerly accounted for by the Foundation and \$9.5 million of expense funded from the Academic Affiliation Agreement with KentuckyOne Health. Administration costs funded by the Foundation were reported on separate Foundation financial statements for fiscal year 2015. Net non-operating revenues and other revenue increased \$5.2 million. Net assets contributed by the Foundation increased \$28.8 million for transfer of gift revenue and funding supporting University administrative programs. This increase was partially offset by decreases in the categories “other non-operating revenue” of \$10.0 million and “gifts” of \$7.7 million. Gift revenue decreased primarily from receipt of a gift of \$8.6 million from University Physicians Group, Inc. in fiscal year 2015. The “Other non-operating revenue” category decreased due to receipt of an \$8.7 million grant from the Pediatric Foundation in fiscal year 2015.

In fiscal year 2015, net position increased \$12.8 million. Gross tuition increased \$11.7 million, offset by scholarship discounts from the Foundation. Clinical services and practice plan revenue increased by \$24.5 million as a result of a \$10.0 million increase in Medicaid related patient revenue and intergovernmental transfers and \$12.5 million in additional revenue from the Academic Affiliation Agreement with KentuckyOne Health. Net non-operating revenues and other revenue increased \$69.4 million: this includes \$53.7 million in contributions from the Foundation related to gifts and endowments included in the University’s consolidated statements. Operating expenses increased by \$90.6 million mainly the result of \$58.7 million of expense charged to gifts and endowments included in the University’s consolidated financial statement and for expense under the Academic Affiliation Agreement with KentuckyOne Health totaling \$12.5 million.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present the University’s results of operations. Condensed statements of the University’s revenues, expenses and changes in net position for the years ended June 30, 2016, 2015 and 2014, are summarized on the following page:

Condensed Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016, 2015, and 2014

(In Thousands)

| | 2016 | 2015 | 2014 | 2016 - 2015 Change | 2015 - 2014 Change |
|---|-------------------|-------------------|-------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 209,503 | \$ 209,834 | \$ 209,442 | \$ (331) | \$ 392 |
| Clinical services and practice plan | 269,305 | 252,446 | 227,858 | 16,859 | 24,588 |
| Grants and contracts | 103,416 | 90,135 | 91,886 | 13,281 | (1,751) |
| Facilities and administrative cost recoveries | 24,611 | 22,596 | 21,965 | 2,015 | 631 |
| Other | 102,734 | 93,329 | 81,262 | 9,405 | 12,067 |
| Total operating revenues | <u>709,569</u> | <u>668,340</u> | <u>632,413</u> | <u>41,229</u> | <u>35,927</u> |
| OPERATING EXPENSES | | | | | |
| Depreciation | 51,295 | 53,339 | 56,333 | (2,044) | (2,994) |
| Other | 959,370 | 911,024 | 817,350 | 48,346 | 93,674 |
| Total operating expenses | <u>1,010,665</u> | <u>964,363</u> | <u>873,683</u> | <u>46,302</u> | <u>90,680</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 142,213 | 140,744 | 147,256 | 1,469 | (6,512) |
| Other nonoperating revenues | 171,794 | 168,052 | 92,164 | 3,742 | 75,888 |
| Total nonoperating revenues | <u>314,007</u> | <u>308,796</u> | <u>239,420</u> | <u>5,211</u> | <u>69,376</u> |
| Increase/(decrease) in net position | <u>12,911</u> | <u>12,773</u> | <u>(1,850)</u> | <u>138</u> | <u>14,623</u> |
| Net position - beginning of year | <u>706,580</u> | <u>693,807</u> | <u>695,657</u> | <u>12,773</u> | <u>(1,850)</u> |
| Net position - end of year | <u>\$ 719,491</u> | <u>\$ 706,580</u> | <u>\$ 693,807</u> | <u>\$ 12,911</u> | <u>\$ 12,773</u> |

Operating Revenues

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

Student tuition and fees, net of allowances for scholarships and fellowships of \$91.2 million and \$83.7 million, were \$209.5 million and \$209.8 million, or 30% and 31% of total operating revenues, for the years ended June 30, 2016 and 2015, respectively. Gross tuition and fees revenues increased \$7.2 million, or 2% compared to the previous year. The increase resulted from a 5% increase in tuition and fees offset by an increase in tuition discount of \$7.5 million representing increased funding for scholarships and fellowships.

In fiscal year 2015, gross tuition and fees revenues increased \$11.7 million, or 4% compared to the previous year. This additional revenue resulted from budgeted tuition rate increases providing \$10.4 million and increased enrollment and other fee increases providing \$1.3 million. The increase was offset by an increase in tuition discount of \$11.3 million, directly related to a change during 2015 in the reporting of Foundation scholarships. Scholarship expense funded by gift and endowment earnings is now reported in the University's consolidated financial statement.

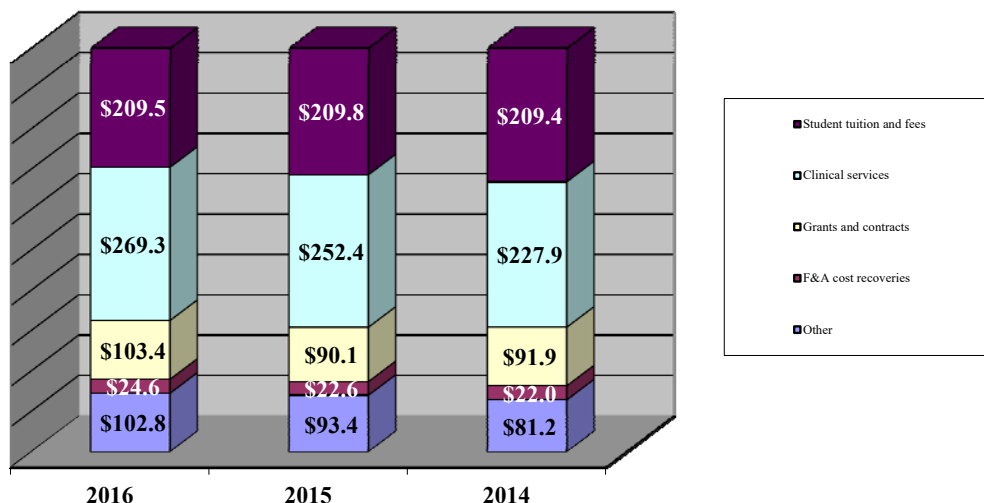
Clinical services and practice plan revenue amounted to \$269.3 million and \$252.4 million, or about 38% of total operating revenues for each of the years ended June 30, 2016 and 2015. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Clinical services and practice plan revenue increased by \$16.9 million or 7%, including a \$9.0 million increase in Medicaid related patient revenue and intergovernmental transfers. Revenue from the Academic Affiliation Agreement with KentuckyOne Health increased \$8.2 million for strategic investments, partially offset by a decrease of \$1.7 million in research infrastructure investments. In fiscal year 2015, clinical services and practice plan revenue increased by \$24.6 million or 11%, including \$10.0 million increase in Medicaid related patient revenue and intergovernmental transfers. Revenue from the academic affiliation agreement with KentuckyOne Health increased \$10.6 million for academic program support, \$8.1 million for strategic investments, and \$4.4 million for research infrastructure investments. These increases were offset by a reduction of \$7.5 million in discretionary funding from the prior year.

Revenue from grants and contracts was \$103.4 million and \$90.1 million for the years ended June 30, 2016 and 2015, respectively. This increase reflects increases in grants and contracts available from Federal and Nongovernmental sources.

The University receives revenues for research and contracts from government and private sources, which normally provide for the recovery of direct and indirect costs. Facilities and administrative (F&A) cost recoveries were \$24.6 million and \$22.6 million for the years ended June 30, 2016 and 2015. F&A cost recovery generally follows the trend in direct cost revenues and expenditures.

The following is a graphic illustration of revenues by source that are used to fund the University's operating activities for the years ended June 30, 2016, 2015 and 2014 (in millions):

Operating Revenues Years ended June 30, 2016, 2015, and 2014

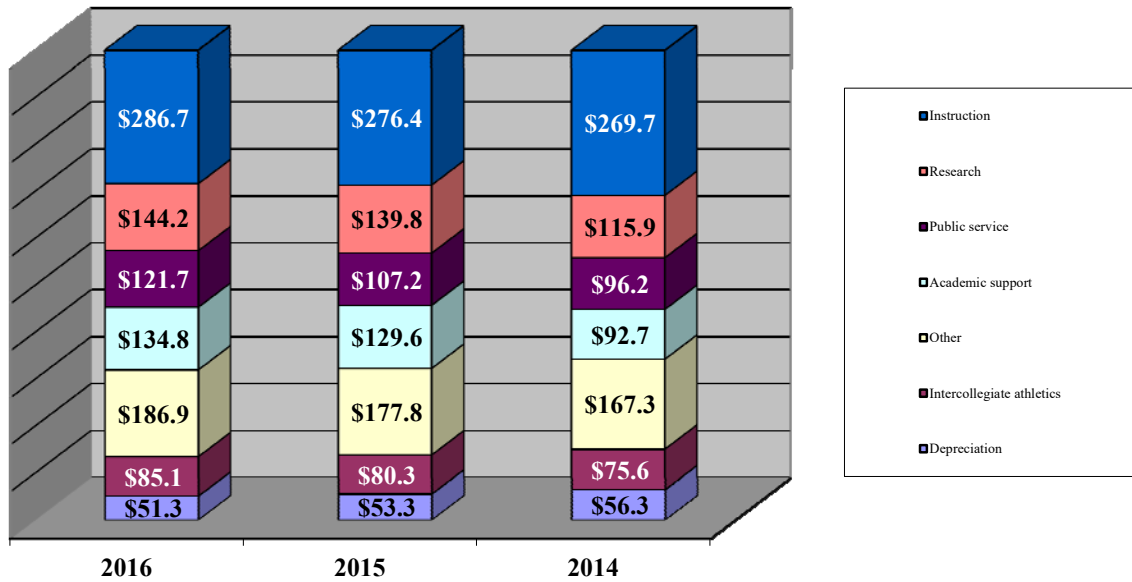


Operating Expenses

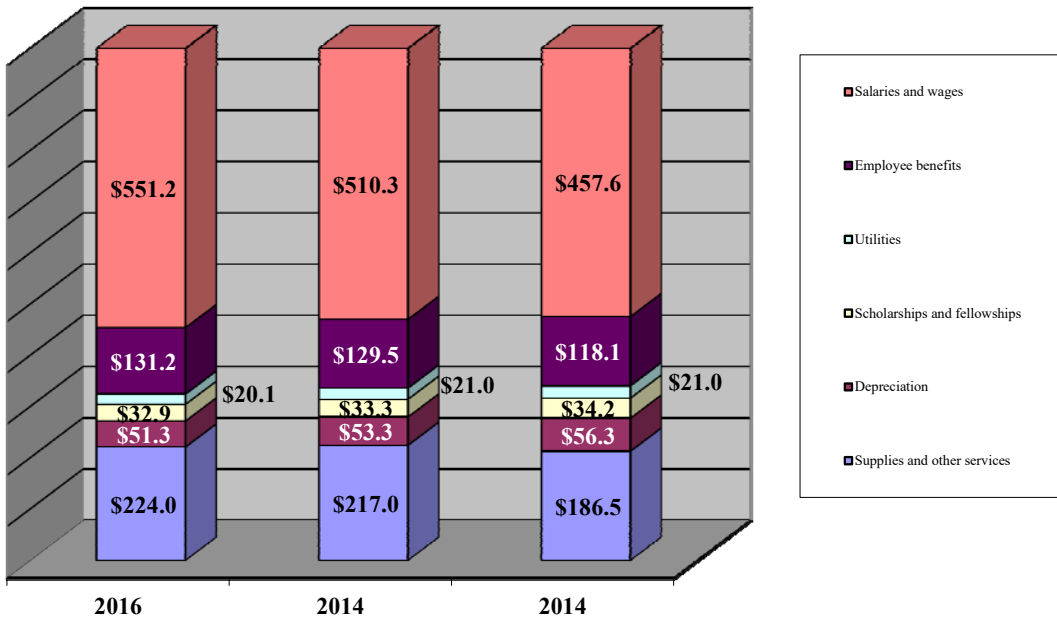
Operating expenses were \$1.0 billion and \$964.4 million and exceeded operating revenues by \$301.1 million and \$296.0 million for the years ended June 30, 2016 and 2015, respectively. When offset by total non-operating revenues of \$314.0 million and \$308.8 million, total net position for the year increased by \$12.9 million and \$12.8 million for the years ended June 30, 2016 and 2015, respectively, and decreased \$1.9 million for the year ended June 30, 2014. Operating expenses for fiscal year 2016 increased by \$46.3 million or 5% over the amount reported in the previous year. Salaries, wages and benefits increased \$42.6 million and supplies and services increased \$7.1 million. These increases were somewhat mitigated by declines in depreciation, utilities, and the amount recorded as scholarship expense. During fiscal year 2015, operating expenses increased by \$90.6 million or 10% over the amount reported in the previous year. The increase is mainly the result \$58.7 million of expense charged to gift and endowments reported in the University's consolidated financial statements. These amounts were reported in the Foundation financial statement for years prior to fiscal year 2015.

Graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2016, 2015 and 2014 (in millions) are summarized as follows and on the following page:

Operating Expenses by Functional Classification
Years ended June 30, 2016, 2015, and 2014



Operating Expenses by Natural Classification
Years ended June 30, 2016, 2015, and 2014



Nonoperating Revenues (Expenses)

General state appropriations of \$142.2 million and \$140.7 million were the most significant non-operating revenues for the years ended June 30, 2016 and 2015, respectively.

Net non-operating revenues and other revenues increased \$5.2 million from the prior year including the increase in net assets contributed by the Foundation of \$28.8 million, partially offset by decreases in other non-operating revenues of \$10.0 million, gifts of \$7.7 million and capital appropriation of \$4.2 million. Contributions from the Foundation increased primarily as result of timing of the transfer of gift revenue and for funding transferred to Foundation administrative programs that were reported by the University during fiscal year 2016. During the prior year gifts were only transferred to the University as necessary to cover cash deficits and the administrative programs were reported by the Foundation. Gifts revenue decreased mainly from the receipt of a gift during fiscal year 2015 totaling \$8.6 million from University Physicians Group, Inc. Other non-operating revenue decreased due to the receipt during fiscal year 2015 of a grant totaling \$8.7 million from the Pediatric Foundation. Capital appropriation revenue reimburses expenses of the development of a new research park on the Belknap Campus.

In 2015 net non-operating revenues and other revenues increased \$69.4 million from the prior year including the increase in net assets contributed by the Foundation of \$53.7 million, a decrease in capital gifts of \$4.8 million and an increase in capital appropriation of \$11.4 million. The increase in contributions by the Foundation represents the funding of a conversion from the Foundation during 2015 of gift and endowment expense budgets.

Statements of Cash Flows

The statements of cash flows provide additional information about the University's financial results by reporting the major sources and uses of cash. The condensed statements of cash flows for the years ended June 30, 2016, 2015 and 2014 are summarized below:

Condensed Statements of Cash Flows Years ended June 30, 2016, 2015, and 2014 (In Thousands)

| | 2016 | 2015 | 2014 | 2016 - 2015 Change | 2015 - 2014 Change |
|--|-------------------|-------------------|------------------|-----------------------|-----------------------|
| Cash (used)/provided by: | | | | | |
| Operating activities | \$ (252,771) | \$ (202,404) | \$ (210,628) | \$ (50,367) | \$ 8,224 |
| Noncapital financing activities | 275,621 | 293,610 | 231,699 | (17,989) | 61,911 |
| Capital and related financing activities | (36,566) | (52,389) | (81,910) | 15,823 | 29,521 |
| Investing activities | 16,523 | 14,545 | 8,466 | 1,978 | 6,079 |
| Net (decrease)/increase in cash and cash equivalents | 2,807 | 53,362 | (52,373) | (50,555) | 105,735 |
| Cash and cash equivalents, beginning of year | 149,042 | 95,680 | 148,053 | 53,362 | (52,373) |
| Cash and cash equivalents, end of year | <u>\$ 151,849</u> | <u>\$ 149,042</u> | <u>\$ 95,680</u> | <u>\$ 2,807</u> | <u>\$ 53,362</u> |

Cash used by operating activities for fiscal year 2016 increased \$50.4 million due to an increase in cash used for payments to employees of \$42.6 million, payments to suppliers of \$16.8 million and decreased cash provided by clinical services and practice plan of \$12.4 million. Partially offsetting these decreases is increased cash provided by grants and contracts of \$6.8 million and increased cash provided by intercollegiate athletics of \$5.8 million.

Net cash provided by noncapital financing activities decreased \$18.0 million due to the receipt of a grant in 2015 from the Pediatric Foundation of \$8.7 million that was not given in 2016 and decreased cash provided by gifts and grants totaling \$5.6 million.

Cash used for capital and related financing activities decreased \$15.8 million. The decrease is the result of cash provided from proceeds from issuance of long-term liabilities of \$107.6 million partially offset by cash used for principal payments of \$79.3 million, cash used for payment of issuance costs of \$7.8 million and decreased cash provided from capital appropriations of \$4.2 million.

Cash from investing activities increased \$2.0 million due mainly to the reduction in the purchase of investments from working capital.

For fiscal year 2015, cash used by operating activities decreased \$8.2 million due to an increase in cash provided by clinical services and practice plan of \$48.7 million and increased cash provided by intercollegiate athletic activities of \$14.7 million partially offset by increased cash used for payments to employees of \$47.3 million. Net cash provided by noncapital financing activities increased \$61.9 million primarily due to increased cash provided by contributions from related entities of \$49.6 million, increased cash provided by gifts and grants of \$9.2 million and increased cash provided by other noncapital financing activities of \$9.0 million. Cash provided by state appropriation decreased \$6.5 million offsetting these increases. Cash used for capital and related financing activities decreased \$29.5 million due mainly to an increase in cash provided from capital appropriations of \$11.4 million and cash provided from the proceeds from issuance of long-term liabilities of \$7.0 million. Capital and financing activities included renovation projects, a master lease agreement entered into by the University to fund certain investments in energy efficiency and completion of various projects of the Association. Cash from investing activities increased \$6.1 million due mainly to an increase in the net amount of investments sold.

Capital Asset and Debt Administration

The University continues to invest in new and renovated facilities to meet the needs of students, faculty and staff. Significant projects completed, in process and approved but not started are listed below.

COMPLETED IN 2016

| | |
|--|--------------|
| Ekstrom Library 1st Floor Renovation | \$ 2,200,000 |
| MDR 4th Floor Renovation - Phase 5 | 705,000 |
| K-Wing 2nd Floor Classroom Renovation | 1,075,000 |
| Resurface Running Track at Cardinal Park | 910,000 |

COMPLETED IN 2015

| | |
|---|------------|
| Donald Baxter Cleanroom Expansion | \$ 960,000 |
| Soccer Stadium | 19,800,000 |
| HSC Instructional Building Classroom Renovation | 8,600,000 |
| Center for Predictive Medicine Expansion | 9,500,000 |

IN PROGRESS FOR 2016

| | |
|--|---------------|
| Belknap Classroom Building | \$ 80,500,000 |
| Athletic Academic Center | 19,300,000 |
| Student Activity Center Renovation | 40,000,000 |
| Ekstrom Library 3rd Floor Renovation | 2,750,000 |
| MDR Building Masonry Restoration | 2,080,000 |
| Donald Baxter Building Cardiology GMP Facility | 2,200,000 |

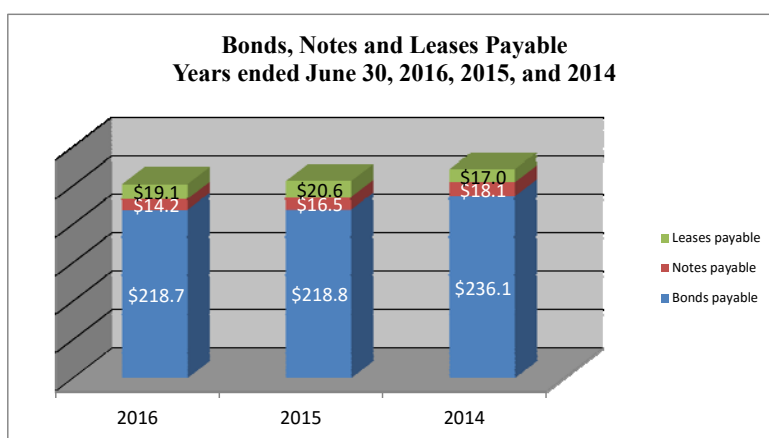
Note:

Capital Projects are projects where the costs are greater than \$600,000.

Debt and Financing Activities

At the end of fiscal year 2016, the University had outstanding \$252.0 million of bonds, leases and notes payable (inclusive of discounts/premiums) as compared to \$255.9 million and \$271.2 million in 2015 and 2014, respectively. The decreases represent normal pay down of long term bonds, and in the current fiscal year, the refunding of certain bonds by the issuance of General Receipts Bonds 2016 Series A, Series B and Series C. General Receipts Bonds, 2016 Series A included \$9.6 million to expand and renovate the student activity center.

Graphic illustrations of bonds, notes and leases payable for the years ended June 30, 2016, 2015 and 2014 (in millions) are summarized below:



A complete discussion of bonds, notes and leases payable is included in Note 9.

Component Units

The University of Louisville Foundation, Inc. (Foundation), University of Louisville Real Estate Foundation, Inc. (ULREF), and University of Louisville Physicians, Inc. (ULP) are included as discretely presented component units of the University. The Foundation acts primarily as a fundraising organization to supplement the resources available to the University in support of its programs. The majority of the Foundation's assets relate to investments held for the benefit of the University. Investments at June 30, 2016, were \$640.0 million, a decrease of \$87.7 million from the June 30, 2015 balance of \$727.7 million.

The ULREF is a nonprofit corporation with the purpose to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University.

ULP is a private, nonprofit corporation that functions as the corporate structure for the clinical practices of the faculty of the University's School of Medicine and maintains close financial and operational relationships with the University.

All discretely presented component units have separate and independent governing boards. The University's Board of Trustees does not provide governance or administrative oversight for the discretely presented component units.

Economic Factors That May Affect the Future

The 2016-18 biennial budget passed by the General Assembly in April 2016 included a 5.4% reduction in net state appropriations to the University in fiscal year 2017, a decrease of \$7.6 million. The University could face an additional 5% cut in fiscal year 2018 if it does not meet certain performance metrics. A committee of University Presidents, appointed by the Governor, is charged with designing and recommending a performance funding model by December 2016.

In light of the changing landscape in higher education both nationwide and in Kentucky, the University has embarked on a consultative process aimed at re-shaping and re-engineering the financial, academic and research "arcs" of the University. The "University of the 21st Century Initiative: Powering the 2020 Plan" is a broad-based, campus-wide initiative to advance the 2020 Plan goals while also addressing emerging needs of students, faculty, staff, and campus community. This initiative focuses efforts on empowering undergraduate learning, creating an environment for student success, enhancing excellence in graduate and professional education, creating additional revenue lines and cost efficiencies, and investing in multidisciplinary areas of strength and emerging areas of research.

Despite continued funding challenges at both state and federal levels, the University has made tremendous progress in meeting its 2020 goals and, as this report reflects, is well-positioned financially to meet the upcoming fiscal challenges.

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

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
June 30, 2016 and 2015
(In Thousands)

| | 2016 | 2015 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 123,803 | \$ 132,014 |
| Deposit with bond trustee and escrow agent | 5,754 | 7,848 |
| Short-term investments | 918 | 10,738 |
| Loans, accounts and contributions receivable, net | 78,821 | 68,984 |
| Due from University of Louisville Foundation, Inc. | 12,340 | 9,574 |
| Inventories | 883 | 948 |
| Other assets | 9,723 | 9,593 |
| Total current assets | <u>232,242</u> | <u>239,699</u> |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 28,046 | 17,028 |
| Deposit with bond trustee and escrow agent | 5,242 | 3,978 |
| Loans, accounts and contributions receivable, net | 43,455 | 40,026 |
| Due from University of Louisville Foundation, Inc. | 9,962 | 9,962 |
| Due from University of Louisville Real Estate Foundation, Inc. | 9,800 | - |
| Investments held with University of Louisville Foundation, Inc. | 25,952 | 30,583 |
| Other long-term investments | 1,988 | 7,329 |
| Other long-term assets | 743 | 1,128 |
| Capital assets, net | 868,398 | 864,686 |
| Total noncurrent assets | <u>993,586</u> | <u>974,720</u> |
| Total assets | <u>1,225,828</u> | <u>1,214,419</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>6,967</u> | <u>851</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 86,275 | 84,032 |
| Unearned compensation and wages payable | 1,686 | 522 |
| Advances | 75,962 | 67,334 |
| Bonds and notes payable | 23,183 | 22,714 |
| Total current liabilities | <u>187,106</u> | <u>174,602</u> |
| Noncurrent Liabilities | | |
| Due to University of Louisville Foundation, Inc. | 316 | 316 |
| Note payable to University of Louisville Foundation, Inc. | 1,000 | 1,000 |
| Unearned compensation and wages payable | 7,895 | 7,599 |
| Deposits | 918 | 902 |
| Advances | 32,591 | 35,251 |
| Amounts due to federal government for student loan programs | 16,199 | 16,149 |
| Other long-term liabilities | 38,283 | 35,996 |
| Bonds and notes payable | 228,821 | 233,204 |
| Total noncurrent liabilities | <u>326,023</u> | <u>330,417</u> |
| Total liabilities | <u>513,129</u> | <u>505,019</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>175</u> | <u>3,671</u> |
| NET POSITION | | |
| Net investment in capital assets | 632,789 | 612,364 |
| Restricted for: | | |
| Nonexpendable | | |
| Scholarships and fellowships | 1,633 | 1,791 |
| Expendable | | |
| Scholarships and fellowships | 2,587 | 882 |
| Research | 18,682 | 5,299 |
| Instruction | 5,158 | 3,211 |
| Public service | 13,333 | 9,305 |
| Academic support | 1,303 | 490 |
| Institutional support | 8,668 | 11,039 |
| Loans | 2,848 | 2,835 |
| Capital projects | 20,146 | 30,603 |
| Debt service | 19,283 | 16,435 |
| Unrestricted | (6,939) | 12,326 |
| Total net position | <u>\$ 719,491</u> | <u>\$ 706,580</u> |

See notes to the financial statements.

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Financial Position
June 30, 2016 and 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|---------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 8,595 | \$ 17,382 |
| Accounts, notes and accrued interest receivable, net | 4,038 | 4,385 |
| Loans receivable, net | 16,320 | 16,553 |
| Contributions receivable, net | 39,204 | 33,913 |
| Due from University of Louisville Real Estate Foundation, Inc. | 28,906 | - |
| Investments | 640,478 | 727,728 |
| Funds held in trust by others | 50,798 | 51,945 |
| Restricted investments | 4,619 | 5,899 |
| Prepaid expenses and other assets | 8,619 | 10,447 |
| Capital assets, net | 97,241 | 178,527 |
| Total assets | <u>\$ 898,818</u> | <u>\$ 1,046,779</u> |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable | \$ 2,098 | \$ 4,466 |
| Funds held in trust for others | 34,187 | 40,615 |
| Other liabilities | 22,118 | 21,642 |
| Bonds and notes payable | 88,419 | 123,905 |
| Due to the University of Louisville | 21,769 | 19,536 |
| Total liabilities | <u>168,591</u> | <u>210,164</u> |
| Net Assets: | | |
| Unrestricted | 3,298 | 103,324 |
| Temporarily restricted | 277,411 | 296,776 |
| Permanently restricted | <u>449,518</u> | <u>436,515</u> |
| Total net assets | <u>730,227</u> | <u>836,615</u> |
| Total liabilities and net assets | <u>\$ 898,818</u> | <u>\$ 1,046,779</u> |

See notes to the financial statements.

University of Louisville Real Estate Foundation, Inc.
Consolidated Statements of Financial Position
June 30, 2016 and 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|------------------|
| ASSETS: | | |
| Cash | \$ 3,467 | \$ 2,504 |
| Accounts receivable, net | 343 | - |
| Prepays and other assets | 244 | - |
| Investments | 264 | - |
| Due from UL AMCC | 1,500 | - |
| Investments in joint ventures | 7,214 | 980 |
| Tax incremental financing intangibles, net | 112,998 | - |
| In-place lease intangibles, net | 1,024 | - |
| Above market lease intangibles, net | 2,876 | - |
| Capital assets, net | 100,505 | 8,008 |
| Total assets | <u>\$ 230,435</u> | <u>\$ 11,492</u> |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable | \$ 1,194 | \$ 1,446 |
| Unearned ground lease revenue | 4,401 | - |
| Unearned grant revenue | 1,937 | - |
| Other liabilities | 463 | 5 |
| Below market lease intangibles, net | 1,247 | - |
| Notes payable | 27,804 | 2,753 |
| Due to the University of Louisville | 9,803 | - |
| Due to the University of Louisville Foundation, Inc. | 28,906 | - |
| Total liabilities | <u>75,755</u> | <u>4,204</u> |
| Net Assets: | | |
| Unrestricted | 153,703 | 6,956 |
| Noncontrolling interests | 977 | 332 |
| Total net assets | <u>154,680</u> | <u>7,288</u> |
| Total liabilities and net assets | <u>\$ 230,435</u> | <u>\$ 11,492</u> |

See notes to the financial statements.

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2016 and 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 196 | \$ 2,472 |
| Assets limited as to use | - | 100 |
| Patient accounts receivable, less allowance for uncollectible accounts of \$27,941 and \$18,303 for 2016 and 2015, respectively | 11,649 | 10,683 |
| Receivables, related parties | 3,742 | 4,527 |
| Other receivables | 1,680 | 960 |
| Prepaid expenses and other current assets | 1,636 | 1,654 |
| Total current assets | <u>18,903</u> | <u>20,396</u> |
| Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG) | 16,482 | 12,345 |
| Property and equipment: | | |
| Furniture, fixtures, and equipment | 2,062 | 1,856 |
| Leasehold improvements | 1,435 | 1,423 |
| Information technology | 12,239 | 10,598 |
| | <u>15,736</u> | <u>13,877</u> |
| Accumulated depreciation and amortization | <u>(7,053)</u> | <u>(4,566)</u> |
| Total property and equipment, net | <u>8,683</u> | <u>9,311</u> |
| Total assets | <u><u>\$ 44,068</u></u> | <u><u>\$ 42,052</u></u> |
| LIABILITIES AND NET DEFICIT | | |
| Current liabilities | | |
| Accounts payable | \$ 13,893 | \$ 12,109 |
| Accrued payroll and related expenses | 7,152 | 6,723 |
| Line of credit | 16,368 | 12,460 |
| Current portion of capital lease obligations | 1,769 | 3,222 |
| Current portion of Passport settlement | - | 1,773 |
| Current portion of long-term debt | - | 261 |
| Total current liabilities | <u>39,182</u> | <u>36,548</u> |
| Long-term liabilities: | | |
| Deferred gain on sale-leaseback of equipment | 269 | 351 |
| Capital lease obligations, net of current portion | 615 | 2,385 |
| Passport settlement, net of current portion | - | - |
| Long-term debt, net of current portion | 280 | 280 |
| Total long-term liabilities | <u>1,164</u> | <u>3,016</u> |
| Total liabilities | <u>40,346</u> | <u>39,564</u> |
| Net assets (deficit): | | |
| Unrestricted: | | |
| Net deficit | (2,308) | (965) |
| Invested in property and equipment, net of related debt | 6,030 | 3,453 |
| Total net assets (deficit) | <u>3,722</u> | <u>2,488</u> |
| Total liabilities and net assets (deficit) | <u><u>\$ 44,068</u></u> | <u><u>\$ 42,052</u></u> |

See notes to the financial statements.

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| OPERATING REVENUES | | |
| Student tuition and fees, net of scholarship allowance of \$91,190 in 2016 and \$83,710 in 2015 | \$ 209,503 | \$ 209,834 |
| Clinical services and practice plan | 269,305 | 252,446 |
| Federal grants and contracts | 70,049 | 64,599 |
| State and local grants and contracts | 8,660 | 11,345 |
| Nongovernmental grants and contracts | 24,707 | 14,191 |
| Sales and services of educational departments | 8,431 | 6,292 |
| Facilities and administrative cost recoveries | 24,611 | 22,596 |
| Auxiliary enterprises, net of discount of \$2,045 in 2016 and \$1,877 in 2015 | 10,946 | 12,618 |
| Intercollegiate athletics | 71,335 | 66,072 |
| Other operating revenues | 12,022 | 8,347 |
| Total operating revenues | <u>709,569</u> | <u>668,340</u> |
| OPERATING EXPENSES | | |
| Instruction | 286,693 | 276,422 |
| Research | 144,197 | 139,830 |
| Public service | 121,720 | 107,165 |
| Academic support | 134,842 | 129,552 |
| Student services | 30,625 | 29,653 |
| Institutional support | 69,720 | 51,431 |
| Operation and maintenance of plant | 47,746 | 56,308 |
| Scholarships and fellowships | 30,842 | 31,774 |
| Auxiliary enterprises | 7,912 | 8,588 |
| Intercollegiate athletics | 85,073 | 80,301 |
| Depreciation and amortization | 51,295 | 53,339 |
| Total operating expenses | <u>1,010,665</u> | <u>964,363</u> |
| Operating loss | <u>(301,096)</u> | <u>(296,023)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 142,213 | 140,744 |
| Gifts | 30,551 | 38,261 |
| Nonexchange grants and contracts | 43,417 | 43,314 |
| Investment income | 1,938 | 1,508 |
| Realized and unrealized loss on investments | (4,657) | (1,657) |
| Interest on capital asset-related debt | (9,961) | (11,136) |
| Other nonoperating revenues | 708 | 10,702 |
| Net nonoperating revenues | <u>204,209</u> | <u>221,736</u> |
| Loss before other revenues, expenses, gains and losses | <u>(96,887)</u> | <u>(74,287)</u> |
| Capital appropriations | 9,741 | 13,973 |
| Capital gifts | 9,623 | 8,331 |
| Contributions to University of Louisville Real Estate Foundation, Inc. | (3,088) | - |
| Contributions from University of Louisville Foundation, Inc. | 93,522 | 64,756 |
| Total other revenues | <u>109,798</u> | <u>87,060</u> |
| Increase in net position | <u>12,911</u> | <u>12,773</u> |
| NET POSITION | | |
| Net position - beginning of year | 706,580 | 693,807 |
| Net position - end of year | <u>\$ 719,491</u> | <u>\$ 706,580</u> |

See notes to the financial statements.

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015
(In Thousands)

| | Unrestricted | | Temporarily Restricted | | Permanently Restricted | | Totals | |
|---|--------------|------------|------------------------|------------|------------------------|------------|------------|------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| REVENUES, GAINS AND OTHER SUPPORT: | | | | | | | | |
| Gifts | \$ 24,334 | \$ 27,779 | \$ 24,619 | \$ 10,765 | \$ 5,483 | \$ 10,392 | \$ 54,436 | \$ 48,936 |
| Net investment return | (18,568) | 47 | 13,473 | 5,443 | - | - | (5,095) | 5,490 |
| Changes in funds held in trust | - | - | - | - | (1,240) | 545 | (1,240) | 545 |
| Net rental revenues | 11,653 | 12,472 | - | - | - | - | 11,653 | 12,472 |
| Actuarial loss on annuity and trust obligations | - | - | 171 | (155) | - | - | 171 | (155) |
| Other revenues | 4,976 | 5,480 | - | - | - | - | 4,976 | 5,480 |
| Tax incremental financing revenues | 17 | 4,885 | - | - | - | - | 17 | 4,885 |
| Net assets released from restrictions: | | | | | | | | |
| Reclassifications | - | (42) | (9,000) | 151 | 9,000 | (109) | - | - |
| Satisfaction of program restrictions | 48,868 | 28,249 | (48,628) | (28,249) | (240) | - | - | - |
| Total revenues, gains and other support | 71,280 | 78,870 | (19,365) | (12,045) | 13,003 | 10,828 | 64,918 | 77,653 |
| EXPENSES: | | | | | | | | |
| Contributions and allocations to University of Louisville departments | 97,494 | 91,574 | - | - | - | - | 97,494 | 91,574 |
| Contributions to ULREF and related organizations: | | | | | | | | |
| Contribution expense | 37,237 | 7,046 | - | - | - | - | 37,237 | 7,046 |
| Loss on disposal of capital assets | 2,784 | - | - | - | - | - | 2,784 | - |
| Loss on deconsolidation | 99 | - | - | - | - | - | 99 | - |
| General and administrative | 13,364 | 7,653 | - | - | - | - | 13,364 | 7,653 |
| Professional services | 4,180 | 3,349 | - | - | - | - | 4,180 | 3,349 |
| Repairs and maintenance | 2,933 | 2,031 | - | - | - | - | 2,933 | 2,031 |
| Depreciation and amortization | 6,834 | 7,401 | - | - | - | - | 6,834 | 7,401 |
| Interest expense | 4,312 | 5,169 | - | - | - | - | 4,312 | 5,169 |
| Other expenses | 2,069 | 5 | - | - | - | - | 2,069 | 5 |
| Total expenses | 171,306 | 124,228 | - | - | - | - | 171,306 | 124,228 |
| Net change in assets | (100,026) | (45,358) | (19,365) | (12,045) | 13,003 | 10,828 | (106,388) | (46,575) |
| Net assets, beginning of year | 103,324 | 148,682 | 296,776 | 308,821 | 436,515 | 425,687 | 836,615 | 883,190 |
| Net assets, end of year | \$ 3,298 | \$ 103,324 | \$ 277,411 | \$ 296,776 | \$ 449,518 | \$ 436,515 | \$ 730,227 | \$ 836,615 |

See notes to the financial statements.

University of Louisville Real Estate Foundation, Inc.
Consolidated Statements of Activities
For the Year Ended June 30, 2016 and for the Period from
Inception (November 19, 2014) through June 30, 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|---|--------------------------|------------------------|
| REVENUES, GAINS, AND OTHER SUPPORT: | | |
| Rental revenue | \$ 2,928 | \$ - |
| Contributions | 175,717 | 7,046 |
| Net investment return | (203) | - |
| Tax incremental financing revenues | 1,722 | - |
| Other revenue | 969 | - |
| Total revenues, gains, and other support | <u>181,133</u> | <u>7,046</u> |
| EXPENSES: | | |
| Contribution expense | 840 | - |
| Salaries | 848 | - |
| General and administrative | 623 | - |
| Professional services | 616 | 90 |
| Utilities | 605 | - |
| Repairs and maintenance | 704 | - |
| Depreciation and amortization | 5,409 | - |
| Goodwill impairment | 24,201 | - |
| Interest expense | 417 | - |
| Property taxes | 123 | - |
| Total expenses | <u>34,386</u> | <u>90</u> |
| Change in net assets attributable to the University of Louisville Real Estate Foundation, Inc. | 146,747 | 6,956 |
| University of Louisville Real Estate Foundation, Inc. net assets, beginning of period | <u>6,956</u> | <u>-</u> |
| University of Louisville Real Estate Foundation, Inc. net assets, end of period | <u><u>\$ 153,703</u></u> | <u><u>\$ 6,956</u></u> |

See notes to the financial statements.

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.

Statements of Activities

Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|------------------------|------------------------|
| Unrestricted revenues, gains and other support: | | |
| Net patient service revenue | \$ 148,423 | \$ 149,654 |
| Provision for bad debts | <u>(46,403)</u> | <u>(54,592)</u> |
| Net patient service revenue less provision for bad debts | 102,020 | 95,062 |
| University of Louisville | 31,277 | 30,746 |
| University Physicians Associates, Inc. (UPA) | 184 | 257 |
| Academic programmatic support - related parties | 16,640 | 14,716 |
| Academic programmatic support | 3,682 | 1,676 |
| Meaningful use income | 3,117 | 2,382 |
| Medical directorship | 407 | 549 |
| Other revenue | 2,722 | 3,214 |
| Gain on investment in KMRRRG | 4,137 | 722 |
| Interest income | <u>87</u> | <u>22</u> |
| Total unrestricted revenues, gains and other support | 164,273 | 149,346 |
| Expenses: | | |
| Program services | 138,820 | 122,813 |
| Management and general | <u>24,219</u> | <u>21,050</u> |
| Total expenses | 163,039 | 143,863 |
| Change in net deficit | 1,234 | 5,483 |
| Net deficit, beginning of year | 2,488 | (2,995) |
| Net assets (deficit), end of year | <u><u>\$ 3,722</u></u> | <u><u>\$ 2,488</u></u> |

See notes to the financial statements.

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(In Thousands)

| | 2016 | 2015 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Student tuition and fees | \$ 214,472 | \$ 209,082 |
| Clinical services and practice plan | 269,000 | 281,436 |
| Grants and contracts | 94,255 | 87,482 |
| Sales and services of educational departments | 5,900 | 6,092 |
| Payments to suppliers | (223,799) | (205,340) |
| Payments for utilities | (20,297) | (21,187) |
| Payments to employees | (548,552) | (505,987) |
| Payments for benefits | (129,031) | (128,233) |
| Payments for scholarships and fellowships | (32,410) | (32,989) |
| Loans issued to students and employees | 618 | (136) |
| Auxiliary enterprises | 10,364 | 13,175 |
| Facilities and administrative cost recoveries | 24,611 | 22,596 |
| Intercollegiate athletics | 71,024 | 63,554 |
| Other receipts | 11,074 | 8,051 |
| Net cash used by operating activities | <u>(252,771)</u> | <u>(202,404)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 139,443 | 140,736 |
| Gifts | 32,994 | 38,643 |
| Nonexchange grants and contracts | 43,417 | 43,314 |
| Contributions from related entities | 78,003 | 60,656 |
| Contributions to related entities | (5,088) | - |
| Other noncapital financing activities | 1,852 | 10,261 |
| Net cash provided by noncapital financing activities | <u>290,621</u> | <u>293,610</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital appropriations received | 9,741 | 13,973 |
| Capital gifts received | 9,269 | 9,045 |
| Purchases of capital assets | (49,283) | (48,859) |
| Proceeds from issuance of bonds and notes payables | 99,536 | 6,965 |
| Payments of issuance costs | (7,798) | - |
| Principal paid on bonds and notes payable | (101,453) | (22,109) |
| Interest paid on bonds and notes payable | (12,408) | (10,982) |
| Deposits with bond trustee and escrow agent | 830 | (422) |
| Net cash used by capital and related financing activities | <u>(51,566)</u> | <u>(52,389)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 18,463 | 19,881 |
| Purchase of investments | (3,555) | (6,629) |
| Interest on investments | 1,615 | 1,293 |
| Net cash provided by investing activities | <u>16,523</u> | <u>14,545</u> |
| Net increase/(decrease) in cash and cash equivalents | 2,807 | 53,362 |
| Cash and cash equivalents - beginning of year | 149,042 | 95,680 |
| Cash and cash equivalents - end of year | <u>\$ 151,849</u> | <u>\$ 149,042</u> |

See notes to the financial statements.

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(In Thousands)

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH | | |
| USED BY OPERATING ACTIVITIES | | |
| Operating loss | \$ (301,096) | \$ (296,023) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization | 51,295 | 53,339 |
| Loss on equipment disposals | 121 | 1,806 |
| Change in assets and liabilities: | | |
| Loans, accounts and contributions receivable, net | (9,593) | 5,193 |
| Inventories | 65 | (86) |
| Other assets | (134) | (1,597) |
| Other long-term assets | 250 | - |
| Accounts payable and accrued liabilities | (2,419) | 275 |
| Advances | 3,289 | 22,410 |
| Deposits | 16 | (17) |
| Due from University of Louisville Foundation, Inc. | 5,474 | 9,910 |
| Unearned compensation and wages payable | 1,444 | 1,164 |
| Other long-term liabilities | 1,950 | 2,366 |
| Deferred inflows of resources | (3,433) | (1,144) |
| Net cash used by operating activities | <u>\$ (252,771)</u> | <u>\$ (202,404)</u> |
| Non cash transactions: | | |
| Capital lease additions | <u>\$ 33</u> | <u>\$ 525</u> |
| Capital asset additions in accounts payable | <u>\$ 6,100</u> | <u>\$ 653</u> |
| Gifts of capital assets | <u>\$ 364</u> | <u>\$ -</u> |

See notes to the financial statements.

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky

Notes to Financial Statements

June 30, 2016 and 2015

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 combined financial position and operations of the University, the University of Louisville Athletic Association, and the University of Louisville Research Foundation. The following affiliated corporations are included as blended component units since they are separate legal entities but are related through certain common management and trustees and exist exclusively for the benefit of the University:

University of Louisville Athletic Association, Inc. (Association). The Association is a Kentucky not-for-profit corporation organized in 1984 for the purpose of promoting the intercollegiate athletic activities of the University of Louisville. The Association's mission to provide quality intercollegiate athletic programs through a comprehensive sports program requires a major financial commitment of both operating and capital resources. In addition, the Association is committed to achieving athletic excellence for its student athletes, maintaining National Collegiate Athletic Association (NCAA) compliance, ensuring full implementation of gender equity plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors.

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

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the University reports the University of Louisville Foundation, Inc. (Foundation), the University of Louisville Real Estate Foundation, Inc. (ULREF) and the University of Louisville Physicians, Inc. (ULP) as discretely presented component units. During 2016, the University changed its reporting entity to include the ULREF as a discretely presented component unit. ULREF formed in fiscal period 2016 with significant operations in fiscal year 2016 that met the criteria of a discretely presented component unit. The inclusion of ULREF was retroactive to fiscal period

2015 and had no material effect on beginning net position. Further descriptions of the Foundation, the ULREF and ULP may be found in footnote 20 Component Units.

All discretely presented component units have separate and independent governing boards. The University's Board of Trustees does not provide governance or administrative oversight for the discretely presented component units.

The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, 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.

c. Deposits With Bond Trustee and Escrow Agent

As of June 30, 2016 and 2015, deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of \$5.8 million and \$5.7 million, respectively, for the Stadium Project Revenue Bonds, and \$5.2 million and \$6.1 million for the Educational Building Bonds.

Investments in governmental securities are stated at market value. Repurchase agreements are stated at cost.

d. Contributions Receivable

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

e. Investments and Investment Income

Investments in marketable debt and equity securities are stated at current fair value. Fair value is determined using quoted market prices. Real estate is stated at fair value if acquired for resale or otherwise used as an investment as determined on the date of acquisition. Certificates of deposit are stated at cost plus accrued interest, which approximates fair value. Investment income consists of interest and dividend income, realized gains and losses and the net change for the year in the fair value of investments carried at fair value.

Investments held with the 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 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 Association's permanent endowment funds, held by the Foundation and invested in the Foundation's general endowment pool, are administered under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky. The Foundation's board of directors has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

The Foundation invests in various corporate debt, equity, partnerships, marketable alternatives, mutual fund securities, U.S. Government securities, certificates of deposit, land and buildings. 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 consolidated statements of financial position.

f. Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was approximately \$0.8 million at June 30, 2016 and 2015, respectively.

g. Inventories

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

h. Capital Assets

Capital assets are stated principally at cost, or estimated acquisition value at date of receipt from donors. Capital assets are depreciated using the straight-line basis over the estimated useful lives of the assets as follows: buildings – 40 years or componentized using 15-50 years, infrastructure – 60 years, land improvements – 40 years, equipment – 3-15 years, leasehold improvements – 20 years and library materials – 10 years. Assets under capital leases are amortized on the straight-line basis over the estimated useful life of the asset, or the lease term, whichever is shorter.

The University has elected to capitalize collections which include art, rare books, photographs, letters, journals, manuscripts and musical instruments. These items are capitalized at cost, or if a gift, at the acquisition value on the date of the gift.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing, net of interest earned on investments acquired with the proceeds of the borrowing.

Total interest incurred was (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Total interest expense incurred on borrowings for project | \$ 945 | \$ 435 |
| Interest income from investment of proceeds of borrowings for project | (35) | - |
| Net interest cost on borrowings for project | <u>\$ 910</u> | <u>\$ 435</u> |
| Interest capitalized | \$ 223 | \$ 105 |
| Interest charged to expense | 9,961 | 11,136 |
| Total interest incurred | <u>\$ 10,184</u> | <u>\$ 11,241</u> |

i. Deferred Outflows and Inflows of Resources

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, the University reports deferred outflows of resources, deferred inflows of resources and net position in its statements of net position and related disclosures.

Deferred outflows of resources of \$7.0 million and \$0.9 million for the years ended June 30, 2016 and 2015, respectively, consist primarily of loss on bond refinancing of \$6.5 million and \$0.8 million and fair value of derivatives of \$0.5 million and \$0.1 million as of June 30, 2016 and 2015, respectively. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred outflows of resources. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense using the effective interest method over the remaining life of the refinanced debt.

Deferred inflows of resources consist of \$0.2 million of fair value of derivatives for each of the years ended June 30, 2016 and 2015 and \$3.4 million of service concession arrangements as of June 30, 2015. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred inflows of resources. Deferred inflows of resources related to the service concession arrangements were recognized during 2016 related to the buyout of the contract with the food service provider.

j. Unearned Compensation Expenses

Unearned compensation expenses are recognized as expense over the term of the related employment agreements.

k. Advances

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

Advances related to amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, parking and sponsorship revenue are recognized over the term of the related athletic activities.

The University receives revenues related to sponsored agreements via grants, contracts, cooperative agreements, or other agreements. 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 University 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 University 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. Grant revenues are recognized as the related grant costs are incurred.

l. Compensated Absences

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

m. Net Bond Premium

The University amortizes the net bond premium using the effective interest method over the life of the bond.

n. Net Position

The net position of the University is classified in four components. Net investment in capital assets consists of the net amount of capital assets, accumulated depreciation, related deferred outflows and deferred inflows of resources, reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted-nonexpendable net position is subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. Restricted-expendable net position consists of the amount of assets and deferred outflows that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, reduced by the outstanding balances of any related liabilities or deferred inflows of resources. Unrestricted net position is the remaining net amount of assets, related deferred outflows and deferred inflows of resources less liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted.

o. Classification of Revenues

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

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

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

p. Student Tuition and Fees

Student tuition and fees are presented net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and third parties making payments on the behalf of students. To the extent that revenues from such programs are used to satisfy tuition and fees, the University has recorded a scholarship allowance. Stipends and other payments made directly to students are presented as scholarships and fellowships expense.

q. Clinical Services and Practice Plan Revenue

The University has agreements with third-party payers that provide for payments to the University at amounts different from its established rates. Net clinical services and practice plan revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for the services rendered and include 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.

r. Government and Nongovernment Grants

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

s. Tax Status

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

t. 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, liabilities, and deferred inflows and outflows of resources at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

u. Reclassification of Prior Years' Financial Statements

In the statements of net position and revenues expenses and changes in net position certain prior year balances have been reclassified to conform to current year presentation. These reclassifications had no effect on the change in net position.

2. Cash on Deposit and Investments

The University invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of net position. The risks related to deposits and investments held by the University are described within this disclosure.

a. Summary of Carrying Values

The value of deposits and investments as of June 30, 2016 and 2015 are as follows (in thousands):

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------------|
| Deposits | \$ 151,849 | \$ 149,042 |
| Investments | | |
| U.S. Treasury obligations | 3,290 | 4,824 |
| U.S. agencies obligations | - | 5,081 |
| Other government obligations | 421 | 12,487 |
| Repurchase agreements | 7,706 | 7,002 |
| Investments held with the Foundation | 25,952 | 30,583 |
| Certificates of deposit | 497 | 499 |
| Annuities | 1,986 | - |
| Other long-term investments | 2 | - |
| | <u>\$ 191,703</u> | <u>\$ 209,518</u> |

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

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------------|
| Cash and cash equivalents | \$ 123,803 | \$ 132,014 |
| Deposit with bond trustee-current | 5,754 | 7,848 |
| Short-term investments | 918 | 10,738 |
| Restricted cash and cash equivalents | 28,046 | 17,028 |
| Deposit with bond trustee-noncurrent | 5,242 | 3,978 |
| Investments held with the Foundation | 25,952 | 30,583 |
| Other long-term investments | 1,988 | 7,329 |
| | <u>\$ 191,703</u> | <u>\$ 209,518</u> |

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be

able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in variable rate demand notes are substantially covered by collateral held by the financial agent. The University does not have a formal policy addressing custodial credit risk.

At June 30, 2016 and 2015, the University had deposits subject to custodial credit risk as follows (in thousands):

| <u>June 30, 2016</u> | <u>State Deposits</u> | <u>Overnight Investments</u> | <u>Total</u> |
|--|---------------------------|----------------------------------|------------------|
| Collateralized with securities held by pledging financial institution | \$ - | \$ 7,429 | \$ 7,429 |
| Collateralized with securities held by the Commonwealth in the Commonwealth's name | \$ 58,398 | - | 58,398 |
| Total | <u>\$ 58,398</u> | <u>\$ 7,429</u> | <u>\$ 65,827</u> |

| <u>June 30, 2015</u> | <u>State Deposits</u> | <u>Overnight Investments</u> | <u>Total</u> |
|--|---------------------------|----------------------------------|------------------|
| Collateralized with securities held by pledging financial institution | \$ - | \$ 7,543 | \$ 7,543 |
| Collateralized with securities held by the Commonwealth in the Commonwealth's name | \$ 48,281 | - | 48,281 |
| Total | <u>\$ 48,281</u> | <u>\$ 7,543</u> | <u>\$ 55,824</u> |

c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The University's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, banker's acceptances, and variable rate demand notes with a maturity not greater than three years.

The University has entered into repurchase agreements for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve in exchange for payment from the available reserve. The final maturities under these agreements are March 1, 2027 and March 1, 2028.

As of June 30, 2016 and 2015, the University had investments subject to interest rate risk as reflected in schedules presented on the following page (in thousands):

| June 30, 2016 | Total | Maturities in years | | | |
|------------------------------|------------------|---------------------|-----------------|-----------------|-----------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasury obligations | \$ 3,290 | \$ 1,860 | \$ 1,430 | \$ - | \$ - |
| Other government obligations | 421 | 421 | - | - | - |
| Repurchase agreements | 7,706 | 628 | 203 | 1,350 | 5,525 |
| Certificates of deposit | 497 | 497 | - | - | - |
| | <u>\$ 11,914</u> | <u>\$ 3,406</u> | <u>\$ 1,633</u> | <u>\$ 1,350</u> | <u>\$ 5,525</u> |

| June 30, 2015 | Total | Maturities in years | | | |
|------------------------------|------------------|---------------------|-----------------|---------------|-----------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Treasury obligations | \$ 4,824 | \$ 4,824 | \$ - | \$ - | \$ - |
| U.S. agencies obligations | 5,081 | - | 5,081 | - | - |
| Other government obligations | 12,487 | 10,738 | 1,749 | - | - |
| Repurchase agreement | 7,002 | 681 | 628 | 978 | 4,715 |
| Certificates of deposit | 499 | - | 499 | - | - |
| | <u>\$ 29,893</u> | <u>\$ 16,243</u> | <u>\$ 7,957</u> | <u>\$ 978</u> | <u>\$ 4,715</u> |

d. Credit Risk

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

As of June 30, 2016 and 2015, the University had the following investments exposed to credit risk as reflected in schedules presented on the following page (in thousands):

| June 30, 2016 | Aaa | Not Rated | Total |
|--------------------------------------|-----------------|------------------|------------------|
| Annuities | \$ 1,986 | \$ - | \$ 1,986 |
| Investments held with the Foundation | - | 25,952 | 25,952 |
| | <u>\$ 1,986</u> | <u>\$ 25,952</u> | <u>\$ 27,938</u> |

| June 30, 2015 | Aaa | A1/P1 | Total |
|--------------------------------------|-------------|------------------|------------------|
| Investments held with the Foundation | \$ - | \$ 30,583 | \$ 30,583 |
| | <u>\$ -</u> | <u>\$ 30,583</u> | <u>\$ 30,583</u> |

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments. At June 30, 2016 and 2015, the University has no investments in any one issuer as defined above that represent 5% or more of total investments.

The asset allocation for investments held with the Foundation as of June 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|----------------------------|------|------|
| Investment in partnerships | 60% | 62% |
| Marketable alternatives | 14% | 19% |
| Preferred and common stock | 13% | 5% |
| Mutual funds | 10% | 12% |
| Fixed income | 2% | - |
| Equity method investments | 1% | 1% |
| Certificates of deposit | - | 1% |
| | 100% | 100% |

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

f. Foreign Currency Risk

This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The University had no investments denominated in foreign currency at June 30, 2016 and 2015.

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The table on the following page presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements as prescribed by *GASB 72, Fair Value Measurement and Application*, as of June 30, 2016 and 2015 (in thousands):

| | Balance as of 6/30/2016 | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Measured at NAV |
|--|----------------------------|---|---|--|--------------------|
| Investments | | | | | |
| Certificates of deposit | \$ 497 | \$ 497 | \$ - | \$ - | \$ - |
| US Treasury obligations | 3,290 | 3,290 | - | - | - |
| Other governmental obligations | 421 | - | 421 | - | - |
| University of Louisville Foundation, Inc. investment fund | 25,952 | - | - | - | 25,952 |
| Investment derivative instruments | | | | | |
| Interest rate swap | 434 | - | 434 | - | - |
| Forward delivery agreement | (175) | - | - | (175) | - |
| Total investments measured at fair value | \$ 30,419 | \$ 3,787 | \$ 855 | \$ (175) | \$ 25,952 |

| | Balance as of 6/30/2015 | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Measured at NAV |
|--|----------------------------|---|---|--|--------------------|
| Investments | | | | | |
| Certificates of deposit | \$ 499 | \$ 499 | \$ - | \$ - | \$ - |
| US Treasury obligations | 4,824 | 4,824 | - | - | - |
| US Agencies Obligations | 5,081 | - | 5,081 | - | - |
| Other governmental obligations | 12,487 | - | 12,487 | - | - |
| University of Louisville Foundation, Inc. investment fund | 30,583 | - | - | - | 30,583 |
| Investment derivative instruments | | | | | |
| Interest rate swap | 95 | - | 95 | - | - |
| Forward delivery agreement | (238) | - | - | (238) | - |
| Total investments measured at fair value | \$ 53,331 | \$ 5,323 | \$ 17,663 | \$ (238) | \$ 30,583 |

a. Investments

Certificates of deposit securities and US Treasury obligations classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Other governmental obligations and U.S. agency obligations classified in Level 2 of the fair value hierarchy are valued using a pricing matrix technique.

b. Investment Derivative Instruments

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using standard pricing models using current forward rate assumptions and/or volatilities to predict cash flows. Derivative instruments classified in Level 3 of the fair value hierarchy are valued using a market approach to assess future cash flows.

Investments measured at net asset value (NAV) (in thousands):

| | Fair Value as of 6/30/16 | Redemption Frequency | Redemption Notice Period |
|--|-----------------------------|---|------------------------------|
| University of Louisville Foundation, Inc. investment fund | \$ 25,925 | Various from any valuation day to quarterly | Various from 5 to 90 days |
| | Fair Value as of 6/30/15 | Redemption Frequency | Redemption Notice Period |
| University of Louisville Foundation, Inc. investment fund | \$ 30,583 | Various from any valuation day to quarterly | Various from 5 to 90 days |

Investments within the University of Louisville Foundation, Inc. investment fund consist of money market mutual funds, common and preferred stock, corporate bonds, mutual funds, investments in partnerships and funds of funds, U.S. Government securities, U.S. Treasuries and U.S. agency obligations. The Foundation has adopted a policy of maintaining a diverse investment pool through the use of targeted asset allocation guidelines. The fair value of the investments in the fund have been determined using the NAV per share (or its equivalent) of the investments.

4. Loans, Accounts and Contributions Receivable, Net

Loans, accounts and contributions receivable, net as of June 30, 2016 and 2015 are as follows and on the following page (in thousands):

| 2016 | | | |
|---|-------------------|--------------------|-------------------|
| | Gross | | Net |
| | Receivable | Allowance | Receivable |
| Student tuition and fees | \$ 34,825 | \$ (9,739) | \$ 25,086 |
| Patient care | 72,043 | (42,071) | 29,972 |
| Contributions receivable | 33,405 | (2,071) | 31,334 |
| KOH affiliation agreement | 1,406 | - | 1,406 |
| Sponsored agreements | 22,618 | (2,740) | 19,878 |
| Rent from University Medical Center, Inc. | 4,905 | - | 4,905 |
| Trade receivables | 2,432 | - | 2,432 |
| Other | 8,586 | (513) | 8,073 |
| Total | <u>\$ 180,220</u> | <u>\$ (57,134)</u> | <u>123,086</u> |
| Less discount | | | (810) |
| Current portion | | | <u>78,821</u> |
| Noncurrent portion | | | <u>\$ 43,455</u> |

| 2015 | | | |
|---|-------------------|--------------------|-------------------|
| | Gross | | Net |
| | Receivable | Allowance | Receivable |
| Student tuition and fees | \$ 36,987 | \$ (7,803) | \$ 29,184 |
| Patient care | 63,310 | (37,662) | 25,648 |
| Contributions receivable | 30,565 | (3,154) | 27,411 |
| Sponsored agreements | 18,705 | (2,740) | 15,965 |
| Rent from University Medical Center, Inc. | 4,253 | - | 4,253 |
| Trade receivables | 2,682 | - | 2,682 |
| Other | 5,085 | (724) | 4,361 |
| Total | <u>\$ 161,587</u> | <u>\$ (52,083)</u> | <u>109,504</u> |
| Less discount | | | (494) |
| Current portion | | | <u>68,984</u> |
| Noncurrent portion | | | <u>\$ 40,026</u> |

Contributions receivable consist primarily of charitable gifts totaling \$32.1 million pledged from individual and corporate donors that are associated with the construction projects of the Association. Receivables with payment schedules in excess of one year are stated at their discounted present value, using discount rates ranging from 0.2% to 5.2% as of June 30, 2016.

Contributions receivable as of June 30, 2016 and 2015 are due to be received as follows (in thousands):

| | 2016 | 2015 |
|------------------------------|-------------------------|-------------------------|
| Less than one year | \$ 5,463 | \$ 7,472 |
| One to three years | 16,998 | 10,676 |
| Greater than three years | 10,944 | 12,417 |
| Subtotal | <u>33,405</u> | <u>30,565</u> |
| Less discount | (810) | (494) |
| Less allowance | <u>(2,071)</u> | <u>(3,154)</u> |
| Net contributions receivable | <u><u>\$ 30,524</u></u> | <u><u>\$ 26,917</u></u> |

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

5. Due From the Foundation

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

By memorandum of agreement dated July 1, 2015, the University agreed to loan a total of \$38.0 million to the ULREF. The receivable shall be repaid in full or satisfied through other financial instruments within 3 years of the effective date of the agreement, with effective date defined as the date on which the University transfers funds to the ULREF. The unpaid balance on the receivable bears simple interest equal to 75 basis points greater than the University's cash sweep rate. The repayment schedule calls for interest only payments semi-annually and a balloon repayment of any unpaid receivable and interest at the end of the term. The transfer of funding was completed August 7, 2015. The ULREF repaid \$28.2 million of the loan during fiscal 2016 leaving a balance of \$9.8 million as of June 30, 2016 that is recorded as noncurrent Due from the University of Louisville Real Estate Foundation, Inc. on the statement of net position.

6. Capital Assets, Net

Capital assets as of June 30, 2016 and 2015 are as follows and on the following page (in thousands):

| | 2016 | | | | |
|---------------------------------|------------------------------|------------------|--------------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Retire- ments | Transfers | Ending Balance |
| Cost - Nondepreciable | | | | | |
| Land | \$ 44,204 | \$ - | \$ - | \$ - | \$ 44,204 |
| Rare books | 43,618 | 884 | - | - | 44,502 |
| Construction in progress | 32,035 | 41,706 | - | (6,725) | 67,016 |
| Subtotal | <u>119,857</u> | <u>42,590</u> | <u>-</u> | <u>(6,725)</u> | <u>155,722</u> |
| Cost - Depreciable | | | | | |
| Buildings | 1,124,951 | 906 | - | 5,986 | 1,131,843 |
| Infrastructure | 11,238 | - | - | - | 11,238 |
| Land improvements | 18,531 | 358 | - | 739 | 19,628 |
| Equipment | 197,399 | 8,826 | (6,941) | - | 199,284 |
| Leasehold improvements | 2,117 | - | - | - | 2,117 |
| Library materials | 167,598 | 2,447 | - | - | 170,045 |
| Subtotal | <u>1,521,834</u> | <u>12,537</u> | <u>(6,941)</u> | <u>6,725</u> | <u>1,534,155</u> |
| Total capital assets-cost | <u>1,641,691</u> | <u>55,127</u> | <u>(6,941)</u> | <u>-</u> | <u>1,689,877</u> |
| Accumulated depreciation | | | | | |
| Buildings | 454,835 | 34,439 | - | - | 489,274 |
| Infrastructure | 3,196 | 187 | - | - | 3,383 |
| Land improvements | 3,021 | 536 | - | - | 3,557 |
| Equipment | 171,123 | 10,654 | (6,821) | - | 174,956 |
| Leasehold improvements | 1,435 | 64 | - | - | 1,499 |
| Library materials | 143,395 | 5,415 | - | - | 148,810 |
| Total accumulated depr. | <u>777,005</u> | <u>51,295</u> | <u>(6,821)</u> | <u>-</u> | <u>821,479</u> |
| Capital assets, net | <u>\$ 864,686</u> | <u>\$ 3,832</u> | <u>\$ (120)</u> | <u>\$ -</u> | <u>\$ 868,398</u> |

| | 2015 | | | | |
|---------------------------------|------------------------------|-------------------|--------------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Retire- ments | Transfers | Ending Balance |
| Cost - Nondepreciable | | | | | |
| Land | \$ 44,204 | \$ - | \$ - | \$ - | \$ 44,204 |
| Rare books | 41,479 | 2,139 | - | - | 43,618 |
| Construction in progress | 42,466 | 24,520 | (553) | (34,398) | 32,035 |
| Subtotal | <u>128,149</u> | <u>26,659</u> | <u>(553)</u> | <u>(34,398)</u> | <u>119,857</u> |
| Cost - Depreciable | | | | | |
| Buildings | 1,089,013 | 4,048 | (2,319) | 34,209 | 1,124,951 |
| Infrastructure | 11,238 | - | - | - | 11,238 |
| Land improvements | 17,865 | 477 | - | 189 | 18,531 |
| Equipment | 194,505 | 8,865 | (5,971) | - | 197,399 |
| Leasehold improvements | 2,001 | 116 | - | - | 2,117 |
| Library materials | 163,991 | 3,607 | - | - | 167,598 |
| Subtotal | <u>1,478,613</u> | <u>17,113</u> | <u>(8,290)</u> | <u>34,398</u> | <u>1,521,834</u> |
| Total capital assets-cost | <u>1,606,762</u> | <u>43,772</u> | <u>(8,843)</u> | <u>-</u> | <u>1,641,691</u> |
| Accumulated depreciation | | | | | |
| Buildings | 421,579 | 34,349 | (1,093) | - | 454,835 |
| Infrastructure | 3,009 | 187 | - | - | 3,196 |
| Land improvements | 2,522 | 499 | - | - | 3,021 |
| Equipment | 164,756 | 12,312 | (5,945) | - | 171,123 |
| Leasehold improvements | 1,371 | 64 | - | - | 1,435 |
| Library materials | 137,467 | 5,928 | - | - | 143,395 |
| Total accumulated depr. | <u>730,704</u> | <u>53,339</u> | <u>(7,038)</u> | <u>-</u> | <u>777,005</u> |
| Capital assets, net | <u>\$ 876,058</u> | <u>\$ (9,567)</u> | <u>\$ (1,805)</u> | <u>\$ -</u> | <u>\$ 864,686</u> |

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2016 and 2015 (in thousands):

| | 2016 | 2015 |
|-----------------------|------------------|------------------|
| Salaries and benefits | \$ 43,299 | \$ 43,255 |
| Payroll taxes | 15,945 | 15,114 |
| Construction | 3,686 | 4,568 |
| Accrued interest | 3,155 | 3,624 |
| Other | 20,190 | 17,471 |
| | <u>\$ 86,275</u> | <u>\$ 84,032</u> |

8. Amounts Payable to University of Louisville Foundation, Inc.

In January 1999, the Association obtained an \$8.5 million unsecured, noninterest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the University and collections are transferred to the Association for the repayment of the loan. No payments were made during the years June 30, 2016 and 2015. The outstanding balance was approximately \$1.0 million for each of the years ended June 30, 2016 and 2015.

In July 2001, the Association obtained a \$347,000 unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball offices. The outstanding loan balance is approximately \$316,000 for each of the years ended June 30, 2016 and 2015.

9. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2016 and 2015 (in thousands):

| | <u>Interest Rate</u> | <u>Fiscal Year of Maturity</u> | <u>2016</u> | <u>2015</u> |
|-----------------------------------|----------------------|------------------------------------|-------------------|-------------------|
| Consolidated Educational Building | | | | |
| Revenue Bonds: | | | | |
| Series M of 2003 | 1.5% | 2016 | \$ - | \$ 1,955 |
| Series P of 2005 | 3.7% to 4.0% | 2025 | - | 2,605 |
| General Receipts Bonds: | | | | |
| Series A of 2007 | 4.0% | 2018 | 3,840 | 30,205 |
| Series A of 2008 | 4.0% | 2019 | 11,700 | 67,330 |
| Series A of 2010 | 4.0% to 4.5% | 2028 | - | 3,412 |
| Series B of 2010 | 5.5% | 2028 | 20,942 | 20,942 |
| Series A of 2011 | 4.0% to 5.0% | 2032 | 29,200 | 30,410 |
| Series A of 2012 | 5.0% | 2023 | 9,940 | 11,105 |
| Series A of 2016 | 2.0% to 5.0% | 2036 | 14,050 | - |
| Series B of 2016 | 2.0% to 5.0% | 2028 | 23,725 | - |
| Series C of 2016 | 2.0% to 4.0% | 2029 | 51,650 | - |
| Metro Government Revenue | | | | |
| Bonds: | | | | |
| Series 2008 A | 4.0% to 5.0% | 2018 | 10,540 | 15,485 |
| Series 2008 B | 4.0% to 4.8% | 2028 | 29,460 | 31,325 |
| Notes payable | 2.3% to 4.8% | 2020 | 14,171 | 16,549 |
| Energy leases | 2.6% to 4.8% | 2033 | 18,791 | 20,212 |
| Capital lease obligations | 2.7% to 10.7% | 2020 | 326 | 357 |
| Total long-term debt | | | 238,335 | 251,892 |
| Net unamortized premium | | | 13,669 | 4,026 |
| Long-term debt, net | | | <u>\$ 252,004</u> | <u>\$ 255,918</u> |

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

| 2016 | | | | | | |
|--|------------------------------|------------------|--------------------------|---------------------------|----------------------------|-------------------------------|
| | Beginning Balance | Additions | Retire- ments | Ending Balance | Current Portion | Noncurrent Portion |
| Bonds payable | \$ 214,774 | \$ 89,425 | \$ (99,152) | \$ 205,047 | \$ 17,420 | \$ 187,627 |
| Notes payable | 16,549 | - | (2,378) | 14,171 | 2,188 | 11,983 |
| Energy leases | 20,212 | - | (1,421) | 18,791 | 1,748 | 17,043 |
| Capital leases | 357 | 33 | (64) | 326 | 159 | 167 |
| Total | 251,892 | 89,458 | (103,015) | 238,335 | 21,515 | 216,820 |
| Less unamortized net (discount)/premium | 4,026 | 10,111 | (468) | 13,669 | 1,668 | 12,001 |
| Net bonds payable | <u>\$ 255,918</u> | <u>\$ 99,569</u> | <u>\$ (103,483)</u> | <u>\$ 252,004</u> | <u>\$ 23,183</u> | <u>\$ 228,821</u> |

| 2015 | | | | | | |
|----------------------------------|------------------------------|------------------|--------------------------|---------------------------|----------------------------|-------------------------------|
| | Beginning Balance | Additions | Retire- ments | Ending Balance | Current Portion | Noncurrent Portion |
| Bonds payable | \$ 231,462 | \$ - | \$ (16,688) | \$ 214,774 | \$ 18,187 | \$ 196,587 |
| Note payable | 18,053 | 1,252 | (2,756) | 16,549 | 2,378 | 14,171 |
| Energy lease | 15,855 | 5,713 | (1,356) | 20,212 | 1,421 | 18,791 |
| Capital leases | 1,142 | 525 | (1,310) | 357 | 146 | 211 |
| Total | 266,512 | 7,490 | (22,110) | 251,892 | 22,132 | 229,760 |
| Less unamortized net discount | 4,665 | - | (639) | 4,026 | 582 | 3,444 |
| Net bonds payable | <u>\$ 271,177</u> | <u>\$ 7,490</u> | <u>\$ (22,749)</u> | <u>\$ 255,918</u> | <u>\$ 22,714</u> | <u>\$ 233,204</u> |

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

| For the year ended | | | |
|---------------------------|-------------------|------------------|-------------------|
| June 30 | Principal | Interest | Total |
| 2017 | \$ 21,515 | \$ 9,433 | \$ 30,948 |
| 2018 | 31,094 | 8,880 | 39,974 |
| 2019 | 15,244 | 7,837 | 23,081 |
| 2020 | 15,213 | 7,303 | 22,516 |
| 2021 | 16,062 | 6,758 | 22,820 |
| 2022 - 2026 | 76,159 | 24,600 | 100,759 |
| 2027 - 2031 | 56,719 | 6,630 | 63,349 |
| 2032 - 2036 | 6,329 | 377 | 6,706 |
| Total | <u>\$ 238,335</u> | <u>\$ 71,818</u> | <u>\$ 310,153</u> |

The University has capitalized leased equipment with a net book value of \$0.8 million and \$2.0 million as of June 30, 2016 and 2015, respectively.

The General Receipts Bonds are collateralized by mortgages on certain University properties. Association revenue is pledged for the payment of the Metro Government Stadium Expansion Bonds, excluding approximately \$2.0 million annually, which is to be available for amounts owed by the Association under the Arena lease agreement. The remaining operating and nonoperating income of the University, excluding income which as a condition of receipt is not available for payment of debt service charges, are pledged for the General Receipts Bonds. Total principal and interest remaining on the debt is \$284.9 million, with annual requirements ranging from \$0.6 million in 2036 to \$36.8

million in 2018. For the current year, principal and interest paid by the University and the total pledged revenue recognized were \$29.9 million and \$505.9 million, respectively

As of June 30, 2016 and 2015, investments at fair value totaling approximately \$11.0 million and \$11.8 million, respectively, for retirement of indebtedness funds have been deposited with the bond trustees and escrow agents as required under the various bond indentures and capital lease agreements.

CEBRB Series M of 2003

On February 1, 2003, the University issued approximately \$88.8 million in bonds with a net interest cost of 3.1% to advance refund approximately \$22.3 million of Series H revenue bonds with a remaining weighted average interest rate of 5.8%, \$36.6 million of Series I refunding bonds with a remaining weighted average interest rate of 5.4% and \$22.3 million of Series J refunding bonds (Series H, I and J hereafter referred to as the prior bonds) with a weighted average interest rate of 5.2%. The net proceeds of approximately \$84.9 million, after discount, issuance costs and a deposit to fund a debt reserve requirement totaling \$3.9 million, were deposited into an irrevocable trust with an escrow agent to ultimately redeem all prior bonds on May 1, 2003. As a result, the prior bonds maturing on or after that date have been removed from the University's statement of net position.

The University advance refunded the prior bonds on March 13, 2003 to reduce its total debt service payments over the next 13 years by approximately \$5.6 million and to obtain an economic gain (difference between the present values of the debt service payments, discounted at the effective interest rate, on the refunded and refunding debt) of approximately \$4.7 million.

The bond was repaid during fiscal year 2016.

CEBRB Series P of 2005

In June 2005, the University issued approximately \$4.2 million in revenue bonds, the proceeds of which funded the acquisition of the Home of the Innocents property to be subsequently renovated for use by the School of Public Health and Information Sciences. Delivery of the Series P Bonds took place on June 15, 2005. The bonds mature incrementally on May 1 of each year beginning May 1, 2007 until May 1, 2025. The interest on the bonds is paid semiannually, on May 1 and November 1, commencing November 1, 2005. The interest rate on the bonds ranges from 3.7% to 4.0%. The CEBRB Series P Bonds were currently refunded by the issuance of General Receipts Bonds 2016 Series A and as a result the liability for the prior bonds has been removed from the University's statement of net position.

University of Louisville General Receipts Bond, 2007 Series A

In April 2007, the University issued the \$41.0 million General Receipts Bond 2007 Series A to provide permanent fixed rate financing for the renovation of the Home of the Innocents property, to provide office space to be used by the University's School of Public Health and Information Sciences; land acquisition for and construction of Patterson Baseball Stadium; construction of Trager Field House for use by intercollegiate teams; construction of the YUM Practice Facility, to be used by the basketball and volleyball teams; and construction of the Center for Predictive Medicine, a Level 3 Regional Bio-safety Laboratory. Security for the bonds includes a pledge of the general receipts of the University and includes the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series B. The final maturity due to the refunding is September 1, 2017. The balance remaining of the General Receipts Bonds 2007 Series A is \$3.8 million as of June 30, 2016.

University of Louisville General Receipts Bonds, 2008 Series A

In July 2008, the University issued \$86.1 million of University of Louisville, General Receipts Bonds, 2008 Series A at a net interest cost of 4.4%. The bond proceeds were used for the construction of a second Health Sciences Center parking garage, to fully fund the construction of a Clinical and Translational Research Building, and for renovation of the School of Dentistry. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. These bonds were partially refunded by the issuance of General Receipts Bonds 2016 Series C. The final maturity due to the refunding is September 1, 2018. The balance remaining of the General Receipts Bonds 2008 Series A is \$11.7 million as of June 30, 2016.

University of Louisville General Receipts Bonds, 2010 Series A and Series B

In December 2010, the University issued \$4.1 million of University of Louisville, General Receipts Bonds, 2010 Series A at a total interest cost of 3.3% and \$20.9 million of University of Louisville, General Receipts Bonds, 2010 Series B at a total interest cost of 1.8%, both net of the subsidy from the *Build America Bonds Act* (BAB). The project financed consists of multiple energy conservation measures within 17 educational and general buildings on the Health Sciences, Shelby and Belknap campuses. The project is expected to produce annual utility cost savings of over \$2.0 million and is being conducted under contract to the University by an energy management company that has guaranteed the annual savings to the University under the detailed terms of the contract. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. Final maturity of the bonds is September 1, 2027.

The General Receipts Bonds, 2010 Series A were issued as bonds designated as BABs under the provisions of the *American Recovery and Reinvestment Act of 2009*. The University expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the General Receipts Bonds, 2010 Series A. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the BABs subsidy is expected to be reduced to approximately 32%.

The General Receipts Bonds, 2010 Series B were issued as bonds designated as QECBs under the provisions of the *American Recovery and Reinvestment Act of 2009*. The University expects to receive a cash subsidy payment from the United States Treasury equal to approximately 71.8% of the interest payable on the General Receipts Bonds, 2010 Series B. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the BABs subsidy is expected to be reduced to approximately 66.6%.

The General Receipts Bonds, 2010 Series A were currently refunded by the issuance of General Receipts Bonds, 2016 Series A. As a result, the liability for these bonds has been removed from the University's statement of net position.

University of Louisville General Receipts Bonds, 2011 Series A

In August 2011, the University issued \$33.8 million of University of Louisville, General Receipts Bonds, 2011 Series A at a total interest cost of 3.6%. The project financed consists of a 128,700 square foot student recreation center. Features include six basketball courts, an indoor running track, a synthetic surface multi-activity court, three aerobics studios, a fitness lab, four racquetball courts, multipurpose activity space, and nearly 20,000 square feet of weight and cardiovascular equipment. Final maturity of the bonds is September 1, 2031.

University of Louisville General Receipts Bonds, 2012 Series A

In June 2012, the University issued \$14.6 million of University of Louisville, General Receipts Bonds, 2012 Series A at a total interest cost of 2.1%. The bonds were issued to advance refund \$13.5 million of Consolidated Educational Buildings Revenue Bonds Series N (Series N) with a weighted average interest rate of 3.9% and \$5.3 million of Consolidated Educational Buildings Revenue Bonds Series O (Series O) with a weighted average interest rate of 4.1% (combined, the prior bonds). The bond proceeds together with an issuance premium of \$2.5 million and funds from the debt service reserve fund for the prior bonds of \$2.8 million have been deposited in escrow and will be used to pay the interest and principal requirements of the prior bonds maturing through and including May 1, 2013, and redeem and retire the prior bonds on May 1, 2013. Final maturity on the 2012 Bonds is March 1, 2023. There were no debt service requirements on the prior bonds as of June 30, 2016 and 2015.

University of Louisville General Receipts Bonds, 2016 Series A

In April 2016, the University issued \$14.1 million of University of Louisville, General Receipts Bonds, 2016 Series A at a total interest cost of 2.76%. The bonds were issued to fund the University's share of the cost of the renovation and expansion of the University of Louisville Student Activity Center and to currently refund \$3.2 million of University of Louisville General Receipts Bonds, Taxable Build America Bonds, 2010 Series A with a weighted average interest rate of 3.7% and \$2.6 million of Consolidated Educational Buildings Revenue Bonds Series P with a weighted average interest rate of 3.9% (combined, the prior bonds). The bond proceeds were combined with an issuance premium of \$1.4 million and funds from the debt service reserve fund for the Series P bond of \$0.3 million to complete the current refunding of the prior bonds. As a result the liability for the prior bonds has been removed from the University's statement of net position. Final maturity on the 2016 Series A Bonds is March 1, 2036. The University will reduce its total debt service payments over the next 12 years by \$0.8 million and realize net present value savings of approximately \$0.4 million as a result of the refinancing.

University of Louisville General Receipts Bonds, 2016 Series B

In April 2016, the University issued \$23.7 million of University of Louisville, General Receipts Bonds, 2016 Series B at a total interest cost of 2.16%. The bonds were issued to advance refund \$24.6 million of University of Louisville General Receipts Bonds, 2007 Series A with a weighted average interest rate of 4.0%. The bond proceeds together with an issuance premium of \$2.4 million have been deposited in escrow and will be used to pay the interest requirements of the 2007 Series A bonds maturing on and after September 1, 2018 through and including September 1, 2017, and redeem and retire the General Receipts Bonds 2007 Series A on September 1, 2017. The balance remaining of the General Receipts Bonds 2007 Series A is \$3.8 million as of June 30, 2016. Final maturity on the 2016 Series B Bonds is September 1, 2027. The University will reduce its total debt service payments over the next 12 years by \$2.0 million and realize net present value savings of approximately \$1.8 million as a result of the refinancing.

University of Louisville General Receipts Bonds, 2016 Series C

In April 2016, the University issued \$51.7 million of University of Louisville, General Receipts Bonds, 2016 Series C at a total interest cost of 2.48%. The bonds were issued to advance refund \$52.0 million of University of Louisville General Receipts Bonds, 2008 Series A with a weighted average interest rate of 4.5%. The bond proceeds together with an issuance premium of \$6.4 million have been deposited in escrow and will be used to pay the interest of the General Receipts Bonds 2008 Series A maturing on or after September 1, 2019 through and including September 1, 2018, and redeem and retire the prior bonds on September 1, 2018. The balance remaining of the General

Receipts Bonds 2008 Series A is \$11.7 million as of June 30, 2016. Final maturity on the 2016 Series C Bonds is September 1, 2028. The University will reduce its total debt service payments over the next 13 years by \$3.3 million and realize net present value savings of approximately \$3.1 million as a result of the refinancing.

Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds Series 2008 A and B

In August 2008, the Louisville Metro Government issued \$39.8 million of Mortgage Revenue Refunding Bonds Series 2008 A at a net interest cost of 3.67% with a maturity date of March 1, 2018 and \$43.5 million of Mortgage Revenue Bonds Series 2008 B at a net interest cost of 4.5% with a maturity date of March 1, 2028. The bond proceeds were used to retire on September 1, 2008 the outstanding County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa John's Cardinal Stadium (the Prior Project). The refunding resulted in a net present value benefit of \$0.5 million and a loss on defeasance of approximately \$0.1 million. Additional funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project.

Note Payable

In June 2013, the Association entered into a \$15.0 million Term Loan with a national banking association. The proceeds will be used to partially finance the renovation of the baseball and softball stadiums and the construction of a soccer stadium (Project). The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the Term Loan is the Daily One Month LIBOR rate plus 1.1%, reset on the last day of each month. The balance of the term loan was \$12.4 million and \$13.4 million as of June 30, 2016 and June 30, 2015, respectively.

Energy Leases

In September 2009, the University entered into a \$20.4 million master lease with a financial institution. The proceeds will be used to finance investments in certain equipment designed to reduce energy usage. The lessor receives an exclusive security interest in any and all equipment acquired. The master lease has a 4.8% fixed interest rate and a term ending 2023.

In May 2015, the University entered into a \$5.7 million master lease to finance investments in energy saving technology with a financial institution. The lessor receives an exclusive security interest in any and all equipment acquired. The master lease has a 2.6% fixed interest rate and a term ending 2033.

10. Derivative Financial Instruments

a. Summary

At June 30, 2016, the Association has the derivative instruments outstanding on the following page (in thousands):

| Type | Objective | Notional Amount | Effective Date | Maturity Date | Terms | Fair Value |
|------------------------------|---|-----------------|----------------|---------------|---|------------|
| Pay-fixed interest rate swap | Hedge of changes in cash flows on the Term Loan | \$ 15,000 | 06/28/13 | 06/30/22 | Pay 2.9%; receive LIBOR + 1.14% | \$ (434) |
| Forward delivery agreement | Earn a higher rate of return than investments with shorter life | \$ 1,510 | 08/05/08 | 03/01/18 | Receive 6.4% on balance of scheduled reserve amount | \$ 175 |

The Forward Delivery Agreement requires the counterparty to deposit securities into the Association's debt service reserve trust account and provides the Association with a guaranteed rate of return. The securities that are deposited into the debt service reserve trust accounts are required to mature prior to the scheduled debt service payment dates on the bond that is secured by the debt service reserve funds.

Eligible securities include cash and direct, full faith and credit, non-callable obligations of the United States of America. The Forward Delivery Agreement allows the Association to earn a guaranteed fixed rate of return over the life of the investment. This agreement is utilized by the Association to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

The fair value of the Forward Delivery Agreement is based on the value of the future discounted cash flows expected to be received over the life of the agreement and is included in other long-term assets on the statements of net position. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the statements of net position. For the year ended June 30, 2016, the change in fair value of the Forward Delivery Agreement was a decrease of approximately \$63,000. The Association receives settlement semi-annually and the settlement is included in interest expense.

The fair value of the Interest Rate Swap was determined using the market's current forward rate assumptions in order to predict future cash flows on the floating side and is included in other long-term liabilities on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred outflows of resources on the Association's statements of net position. For the year ended June 30, 2016, the decrease in fair value of the Interest Rate Swap was approximately \$339,000. No initial cash receipt or payment was made in relation to the Interest Rate Swap. The Association receives or pays a net amount monthly and includes the monthly settlement amount in interest expense.

b. Credit Risk

Credit risk is the risk that the counterparty will not fulfill its obligations. Under the terms of the Forward Delivery Agreement, the Association is either holding cash or an approved security within the debt service reserve funds. None of the principal amount of an investment under the Forward Delivery Agreement is at risk to the credit of the counterparty. Should the counterparty default, the Association's maximum exposure is the positive termination value, if any, related to this agreement.

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2016. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Association has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2016, the counterparty to the Interest Rate Swap had a credit rating of A3 from Moody's Investors Services.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Association's financial instruments or cash flows. The fair market values of the derivative instruments are expected to fluctuate over the life of the agreement in response to changes in interest rates. The Association does not have a formally adopted policy related to interest rate risk related to derivative instruments.

d. Termination Risk

The Association or the counterparty may terminate the Forward Delivery Agreement if the other party fails to perform under the terms of the contract. In addition, the Association has an unrestricted option to terminate the Forward Delivery Agreement. If the Forward Delivery Agreement has a negative fair value at the time of termination, the Association would be liable to the counterparty for a payment equivalent to the fair market value of the instrument at the time of termination.

The Association or the counterparty may terminate the Interest Rate Swap if the other party fails to perform under the terms of the contract. The contract also provides for other termination events, including if the Term Loan matures, expires, is terminated or cancelled or changes lenders. If the Interest Rate Swap terminates early and the Association is the defaulting party, the Association would be liable for the losses, if any, of the counterparty.

11. Other Liabilities

Other liabilities of the University consisted of the following and on the following page at June 30, 2016 and 2015 (in thousands):

| | 2016 | | | | | |
|--|------------------------------|------------------|--------------------------|---------------------------|----------------------------|-------------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retire- ments</u> | <u>Ending Balance</u> | <u>Current Portion</u> | <u>Noncurrent Portion</u> |
| Due to University of Louisville Foundation, Inc. | \$ 316 | \$ - | \$ - | \$ 316 | \$ - | \$ 316 |
| Note payable to University of Louisville Foundation, Inc. | 1,000 | - | - | 1,000 | - | 1,000 |
| Unearned compensation and wages payable | 8,121 | 2,588 | (1,128) | 9,581 | 1,686 | 7,895 |
| Deposits | 902 | 76 | (60) | 918 | - | 918 |
| Advances | 102,585 | 75,693 | (69,725) | 108,553 | 75,962 | 32,591 |
| Amounts due federal government for student loan program | 16,149 | 50 | - | 16,199 | - | 16,199 |
| Other postemployment benefits | 36,999 | 6,180 | (2,437) | 40,742 | 4,452 | 36,290 |
| Other long-term liabilities | 7,365 | 339 | (3,279) | 4,425 | 2,433 | 1,992 |
| Total | <u>\$ 173,437</u> | <u>\$ 84,926</u> | <u>\$ (76,629)</u> | <u>\$181,734</u> | <u>\$ 84,533</u> | <u>\$ 97,201</u> |

| | 2015 | | | | | |
|--|------------------------------|------------------|--------------------------|---------------------------|----------------------------|-------------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retire- ments</u> | <u>Ending Balance</u> | <u>Current Portion</u> | <u>Noncurrent Portion</u> |
| Due to University of Louisville Foundation, Inc. | \$ 316 | \$ - | \$ - | \$ 316 | \$ - | \$ 316 |
| Note payable to University of Louisville Foundation, Inc. | 1,000 | - | - | 1,000 | - | 1,000 |
| Unearned compensation and wages payable | 6,943 | 1,718 | (540) | 8,121 | 522 | 7,599 |
| Deposits | 919 | 85 | (102) | 902 | - | 902 |
| Advances | 79,717 | 81,288 | (58,420) | 102,585 | 67,334 | 35,251 |
| Amounts due federal government for student loan program | 16,355 | - | (206) | 16,149 | - | 16,149 |
| Other postemployment benefits | 31,069 | 9,065 | (3,135) | 36,999 | 4,682 | 32,317 |
| Other long-term liabilities | 17,904 | 95 | (10,634) | 7,365 | 3,686 | 3,679 |
| Total | <u>\$ 154,223</u> | <u>\$ 92,251</u> | <u>\$ (73,037)</u> | <u>\$173,437</u> | <u>\$ 76,224</u> | <u>\$ 97,213</u> |

Other long-term liabilities as of June 30, 2016 and 2015 include the accrual of the fee associated with the withdrawal from the American Athletic Conference, the voluntary separation incentive liability and other contractual payments. The current portion of other postemployment benefits and other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2016 and 2015.

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 \$500 and \$1,000,000 per occurrence. Losses in excess of \$1,000,000 are insured by commercial carriers up to \$1.2 billion 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 2015 to 2016. 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, 2016 and 2015, respectively, was approximately \$60.0 million and \$60.3 million, including \$4.2 million and \$5.8 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

The following table reconciles the claims liability for the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014.

| Fiscal year ended June 30, | Beginning Balance | Current Year Claims and Changes in Estimates | Claim Payments | Ending Balance |
|-------------------------------|-------------------|--|----------------|----------------|
| 2016 | 5,825 | 53,331 | (54,987) | 4,169 |
| 2015 | 4,976 | 55,516 | (54,667) | 5,825 |
| 2014 | 4,511 | 55,211 | (54,746) | 4,976 |

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2016 and 2015 (in thousands):

| | 2016 | 2015 |
|------------------------------|---------------------|-------------------|
| Salaries and wages | \$ 551,228 | \$ 510,291 |
| Employee benefits | 131,172 | 129,544 |
| Utilities | 20,119 | 21,037 |
| Scholarships and fellowships | 32,875 | 33,300 |
| Depreciation | 51,295 | 53,339 |
| Supplies and other services | 223,976 | 216,852 |
| | <u>\$ 1,010,665</u> | <u>\$ 964,363</u> |

14. Retirement Plans

a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan administered by the University upon completion of one year's service and attainment of age 21. The University of Louisville 403(b) Retirement Plan (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, 2016 and 2015 is presented as follows (in thousands):

| | 2016 | 2015 |
|-----------------------------------|------------|------------|
| Total University payroll | \$ 553,806 | \$ 520,436 |
| Total payroll covered by the plan | 534,099 | 511,505 |
| Employee contributions | 29,615 | 28,198 |
| University contributions | 39,104 | 36,543 |

As of June 30, 2016 and 2015, the University had no forfeitures or outstanding liability related to the Retirement Plan.

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. This is a single-employer plan. There were no annual required contributions for the years ended June 30, 2016 and June 30, 2015. 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, 2016 and 2015 are as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Actuarial present value of non-vested accumulated plan benefits | \$ 1,256 | \$ 1,378 |
| Net assets available for benefits | \$ 1,621 | \$ 1,764 |
| Net pension surplus | \$ (365) | \$ (386) |
| Funded ratio | 129% | 128% |

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, 2016 and 2015, 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. The Plan is a single-employer plan and the University's Board of Trustees determines the eligibility requirements related to the Plan. The Plan does not issue stand-alone financial reports and is not included in the report of any entity.

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. The contribution requirements of the contributing members are determined by the University's management on an annual basis. During the years ended June 30, 2016 and 2015, the University contributed approximately \$1.9 million and \$1.7 million, approximately 66% and 65% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$1.0 million and \$0.9 million,

approximately 39% and 35% of total premiums for the years ended June 30, 2016 and 2015, respectively, through their required monthly contributions according to the schedules below:

| 2016 | | | | | |
|---------------------|------------|-------------------------------|------------|-----------------|----------------|
| | PPO | Cardinal Care Plan | EPO | PCA High | PCA Low |
| Employee | \$ 335 | \$ 447 | \$ 353 | \$ 281 | \$ 248 |
| Employee and Spouse | \$ 811 | \$ 871 | \$ 851 | \$ 692 | \$ 555 |

| 2015 | | | | | |
|---------------------|------------|-------------------------------|------------|-----------------|----------------|
| | PPO | Cardinal Care Plan | EPO | PCA High | PCA Low |
| Employee | \$ 335 | \$ 407 | \$ 353 | \$ 281 | \$ 248 |
| Employee and Spouse | \$ 811 | \$ 831 | \$ 851 | \$ 692 | \$ 555 |

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the years ended June 30, 2016 and 2015, the University contributed \$1.6 million and \$1.5 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 (UAAL) 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):

| | 2016 | 2015 |
|---|-------------|-------------|
| Normal cost | \$ 5,061 | \$ 4,536 |
| AAL amortization | 5,252 | 5,095 |
| Annual required contribution (ARC) | 10,313 | 9,631 |
| Interest on above | 1,258 | 1,171 |
| Adjustment to ARC | (1,825) | (1,669) |
| OPEB liability gain | (3,566) | (8) |
| Annual OPEB cost (AOC) | 6,180 | 9,125 |
| Contributions made | (2,437) | (3,195) |
| Increase in net OPEB obligation | 3,743 | 5,930 |
| Net OPEB obligation - beginning of year | 36,999 | 31,069 |
| Net OPEB obligation - end of year | \$ 40,742 | \$ 36,999 |

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 |
|-------------------------------|---------------------|--|------------------------|
| 2016 | \$ 6,180 | 39% | \$ 40,742 |
| 2015 | 9,125 | 35% | 36,999 |
| 2014 | 6,817 | 45% | 31,069 |
| 2013 | 5,746 | 41% | 27,300 |

d. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$89.7 million and \$89.1 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$89.7 million and \$89.1 million as of June 30, 2016 and 2015, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$478.2 million and \$459.6 million, and the ratio of the UAAL to the covered payroll was 19%, for the years ended June 30, 2016 and 2015, respectively.

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, 2015, 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 7.8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 11 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2016 and 2015 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, 2016 was 21 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 academic affiliation agreement calls for a strategic programmatic investment fund and plan. KentuckyOne will invest \$114.5 million in key University clinical service lines and departments and \$20.5 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, 2016, the University received \$23.0 million and \$33.8 million related to the strategic programmatic investments and research initiatives, respectively. To date the University has received \$78.5 million related to strategic investment and research infrastructure. As the University has not yet expended the funds in accordance with the proposals, \$21.2 million is included in current advances and \$28.4 million is included in noncurrent advances in the statement of net position as of June 30, 2016. \$12.0 million in current advances and \$30.8 million in noncurrent advances are represented in the statement of net position as of June 30, 2015. The agreement calls for the payment annually of discretionary funding of \$15.0 million over three years with payment contingent on the achievement of certain performance metrics. During the years ended June 30, 2016 and 2015, the University did not receive the funding for discretionary purposes to support key statewide areas of focus.

The academic affiliation agreement also calls for KentuckyOne to provide an aggregate \$75.0 million per annum in academic support for the initial term of five years subject to annual adjustments to the Medicare base rate. During years six through twenty the academic support will not exceed \$95.0 million or be less than \$55.0 million. The academic support payment includes funding for certain full-time equivalent resident positions over the term of the affiliation agreement. Funding for the years ended June 30, 2016 and 2015 were \$60.7 million and \$61.4 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 not less than \$7.5 million and not more than \$17.5 million based on the ratio of net operating income to budget for KentuckyOne. The accompanying statements of revenues, expenses, and changes in net position include approximately \$7.5 million for each of the years ended June 30, 2016 and 2015 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 \$6.8 million and \$7.5 million for the years ended June 30, 2016 and 2015, 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 years ended June 30, 2016 and 2015 was \$0.9 million and \$1.4 million, respectively 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 \$4.9 million and \$4.3 million in accounts receivable for the years ended June 30, 2016 and 2015, 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.

b. Quality and Charity Care Trust Transfers for Hospital Operations

In November 2014, the University entered into The Revised Quality and Charity Care Trust agreement (Revised 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. (Trust) 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 Trust Agreement. Funding of \$4.9 million and \$4.5 million for the years ended June 30, 2016 and 2015, respectively, provided by the Commonwealth, Louisville Metro Government, and the University 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.

The funds available to the Trust from the government sources are set forth in the Revised Trust Agreement for the term. The government funding is paid to the Trust within thirty days of receipt and approval of the reports by the Commonwealth as required by the Revised Trust Agreement.

At June 30, 2015, the University's statement of net position includes \$0.9 million in accounts payable and accrued liabilities related to their portion of the final government funding for the fiscal year ended June 30, 2016.

c. Norton Healthcare

In December 17, 2015, Norton Healthcare, Inc., (Norton), the University and Commonwealth agreed to a Settlement Agreement, a First Amendment to Lease and a First Amendment to Master Affiliation Agreement, amending the original Lease and Master Affiliation Agreement. These

agreements provide for \$30.0 million annual support payments from Norton to the University and its affiliates through Individual Agreements for research, academic support, residences and fellowships and related costs. In addition, the agreement stipulates that Norton provide additional financial support to the University of Louisville Pediatrics Department of \$24.0 million over eight years and expend at least \$35.0 million in facility improvements and other capital expenditures at Kosair Children's Hospital. Payments received by the University and its affiliates are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Funding for the agreement for the years ended June 30, 2016 and 2015 was \$35.0 million and \$31.7 million, respectively. The Settlement Agreement also included a payment of \$8.0 million to the Research Foundation for expenses incurred.

d. 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 \$25,000 to \$66,550. Total lease expense for each of the years ended June 30, 2016 and 2015 amounted to approximately \$61,000.

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 \$47,000, and are subject to increases based on increases in the CPI. Total lease expenses during the years ended June 30, 2016 and 2015 amounted to approximately \$180,000 and \$84,000, 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 \$10,000 per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of \$5,000 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, 2016 and 2015 amounted to approximately \$3.8 million and \$3.7 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, 2016 and 2015 amounted to approximately \$0.5 million each year.

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, 2016 and 2015 amounted to approximately \$2.5 million and \$2.4 million, respectively.

d. Future Minimum Lease Payments

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

| <u>For the year ending June 30,</u> | <u>Lease Payment Due</u> |
|-------------------------------------|------------------------------|
| 2017 | \$ 2,918 |
| 2018 | 2,239 |
| 2019 | 451 |
| 2020 | 451 |
| 2021 | 451 |
| 2022-2026 | 2,055 |
| 2027-2031 | 1,513 |
| 2032-2036 | 1,491 |
| 2037-2041 | 1,491 |
| 2042-2046 | 921 |
| 2047-2051 | 66 |
| 2052-2056 | 66 |
| 2057-2061 | 66 |
| 2062-2066 | 66 |
| 2067-2071 | 40 |
| Future minimum lease payments | <u><u>\$ 14,285</u></u> |

18. Commitments and Contingencies

a. Commitments

At June 30, 2016, the University had approximately \$12.3 million in encumbrances outstanding for future expenditures. As part of the entrance into the Atlantic Coast Conference, the Association committed to an unspecified amount of revenue to be withheld.

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.

19. Recent Accounting Pronouncements

As of June 30, 2016, the following GASB statement was implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires state and local governments to measure certain assets and liabilities held as investments at fair value. The statement enhances financial statements by providing consistent definition and accepted valuation techniques for fair value measurement. The implementation of this Statement had no financial impact and additional disclosure requirements.

As of June 30, 2016, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles in the United States of America.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement.

As of June 30, 2016, the GASB has issued the following statements that could be applicable to the University.

- a. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

- b. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.
- c. GASB Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*. The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements

20. Subsequent Event

Subsequent to June 30, 2016 the University executed a contract for food management services and a contract for bookstore management. Both contracts contain financial commitments to be provided by the service provider throughout the term of the contract.

21. Component Units

a. Blended Component Units – Combined Condensed Statements

The combining schedules of the University, the Research Foundation and the Association as of June 30, 2016 and 2015, are as follows and on the following pages (in thousands):

Condensed Statements of Net Position

| | 2016 | | | |
|----------------------------------|-------------------|---------------------|----------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Current assets | \$ 129,783 | \$ 49,750 | \$ 52,709 | \$ 232,242 |
| Capital assets | 637,025 | 65,989 | 165,384 | 868,398 |
| Other noncurrent assets | 62,464 | 719 | 62,005 | 125,188 |
| Total assets | 829,272 | 116,458 | 280,098 | 1,225,828 |
| Deferred outflows of resources | 6,526 | - | 441 | 6,967 |
| Current liabilities | 86,443 | 41,822 | 58,841 | 187,106 |
| Due to University | (23,288) | - | 23,288 | - |
| Other noncurrent liabilities | 255,077 | 12,684 | 58,262 | 326,023 |
| Total liabilities | 318,232 | 54,506 | 140,391 | 513,129 |
| Deferred inflows of resources | - | - | 175 | 175 |
| Net investment in capital assets | 453,708 | 65,990 | 113,091 | 632,789 |
| Restricted-nonexpendable | - | - | 1,633 | 1,633 |
| Restricted-expendable | 45,855 | 21,791 | 24,362 | 92,008 |
| Unrestricted | 18,003 | (25,829) | 887 | (6,939) |
| Total net position | <u>\$ 517,566</u> | <u>\$ 61,952</u> | <u>\$ 139,973</u> | <u>\$ 719,491</u> |

| | 2015 | | | |
|----------------------------------|-------------------|--------------------------------|---------------------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Current assets | \$ 147,473 | \$ 41,899 | \$ 50,327 | \$ 239,699 |
| Capital assets | 641,540 | 70,132 | 153,014 | 864,686 |
| Other noncurrent assets | 49,076 | 735 | 60,223 | 110,034 |
| Total assets | 838,089 | 112,766 | 263,564 | 1,214,419 |
| Deferred outflows of resources | 741 | - | 110 | 851 |
| Current liabilities | 95,392 | 28,926 | 50,284 | 174,602 |
| Due to University | (9,173) | - | 9,173 | - |
| Other noncurrent liabilities | 253,127 | 11,120 | 66,170 | 330,417 |
| Total liabilities | 339,346 | 40,046 | 125,627 | 505,019 |
| Deferred inflows of resources | 3,433 | - | 238 | 3,671 |
| Net investment in capital assets | 450,197 | 70,133 | 92,034 | 612,364 |
| Restricted-nonexpendable | - | - | 1,791 | 1,791 |
| Restricted-expendable | 36,380 | 7,489 | 36,230 | 80,099 |
| Unrestricted | 9,474 | (4,902) | 7,754 | 12,326 |
| Total net position | <u>\$ 496,051</u> | <u>\$ 72,720</u> | <u>\$ 137,809</u> | <u>\$ 706,580</u> |

*Condensed Statements of Revenues, Expenses,
and Changes in Net Position*

| 2016 | | | | |
|---|-------------------|--------------------------------|---------------------------------|--------------|
| | University | Research Foundation | Athletic Association | Total |
| Student tuition and fees, net | \$ 209,503 | \$ - | \$ - | \$ 209,503 |
| Clinical services and practice plan | 35,439 | 233,866 | - | 269,305 |
| Grants and contracts | 296 | 103,120 | - | 103,416 |
| Facilities and administrative cost recoveries | - | 24,611 | - | 24,611 |
| Other operating revenue | 27,415 | 3,984 | 71,335 | 102,734 |
| Total operating revenues | 272,653 | 365,581 | 71,335 | 709,569 |
| Depreciation | 38,206 | 7,914 | 5,175 | 51,295 |
| Other operating expenses | 462,932 | 401,646 | 94,792 | 959,370 |
| Total operating expenses | 501,138 | 409,560 | 99,967 | 1,010,665 |
| Operating loss | (228,485) | (43,979) | (28,632) | (301,096) |
| State appropriations | 142,213 | - | - | 142,213 |
| Gifts | 132 | 1,491 | 28,928 | 30,551 |
| Interest on capital asset-related debt | (7,625) | - | (2,336) | (9,961) |
| Other nonoperating revenues | 2,339 | 43,641 | (4,574) | 41,406 |
| Capital appropriations | 9,741 | - | - | 9,741 |
| Capital gifts | (57) | - | 9,680 | 9,623 |
| Transfers | 103,257 | (11,921) | (902) | 90,434 |
| Total nonoperating revenues | 250,000 | 33,211 | 30,796 | 314,007 |
| Change in net position | 21,515 | (10,768) | 2,164 | 12,911 |
| Net position - beginning of year | 496,051 | 72,720 | 137,809 | 706,580 |
| Net position - end of year | \$ 517,566 | \$ 61,952 | \$ 139,973 | \$ 719,491 |

| 2015 | | | | |
|---|-------------------|--------------------------------|---------------------------------|--------------|
| | University | Research Foundation | Athletic Association | Total |
| Student tuition and fees, net | \$ 209,834 | \$ - | \$ - | \$ 209,834 |
| Clinical services and practice plan | 30,001 | 222,445 | - | 252,446 |
| Grants and contracts | 211 | 89,924 | - | 90,135 |
| Facilities and administrative cost recoveries | - | 22,596 | - | 22,596 |
| Other operating revenues | 25,088 | 2,169 | 66,072 | 93,329 |
| Total operating revenues | 265,134 | 337,134 | 66,072 | 668,340 |
| Depreciation | 39,883 | 8,470 | 4,986 | 53,339 |
| Other operating expenses | 434,372 | 388,148 | 88,504 | 911,024 |
| Total operating expenses | 474,255 | 396,618 | 93,490 | 964,363 |
| Operating loss | (209,121) | (59,484) | (27,418) | (296,023) |
| State appropriations | 140,744 | - | - | 140,744 |
| Gifts | 42 | 9,652 | 28,567 | 38,261 |
| Interest on capital asset-related debt | (8,579) | - | (2,557) | (11,136) |
| Other nonoperating revenues | 2,880 | 52,988 | (2,001) | 53,867 |
| Capital appropriations | 13,973 | - | - | 13,973 |
| Capital gifts | 396 | - | 7,935 | 8,331 |
| Voluntary separation plan expense | - | - | - | - |
| Transfers | 71,967 | (8,219) | 1,008 | 64,756 |
| Total nonoperating revenues | 221,423 | 54,421 | 32,952 | 308,796 |
| Change in net position | 12,302 | (5,063) | 5,534 | 12,773 |
| Net position - beginning of year | 483,749 | 77,783 | 132,275 | 693,807 |
| Net position - end of year | \$ 496,051 | \$ 72,720 | \$ 137,809 | \$ 706,580 |

Condensed Statements of Cash Flows

| | 2016 | | | |
|--|-------------------|---------------------|----------------------|-------------------|
| | University | Research Foundation | Athletic Association | Total |
| Cash (used)/provided by: | | | | |
| Operating activities | \$ (179,723) | \$ (49,994) | \$ (23,054) | \$ (252,771) |
| Noncapital financing activities | 211,998 | 33,155 | 30,468 | 275,621 |
| Capital and related financing activities | (30,371) | (3,809) | (2,386) | (36,566) |
| Investing activities | 18,752 | 53 | (2,282) | 16,523 |
| Net (decrease)/increase in cash and cash equivalents | 20,656 | (20,595) | 2,746 | 2,807 |
| Cash and cash equivalents, beginning of year | 109,690 | (5,938) | 45,290 | 149,042 |
| Cash and cash equivalents, end of year | <u>\$ 130,346</u> | <u>\$ (26,533)</u> | <u>\$ 48,036</u> | <u>\$ 151,849</u> |
| | 2015 | | | |
| | University | Research Foundation | Athletic Association | Total |
| Cash (used)/provided by: | | | | |
| Operating activities | \$ (135,016) | \$ (47,088) | \$ (20,300) | \$ (202,404) |
| Noncapital financing activities | 210,041 | 53,612 | 29,957 | 293,610 |
| Capital and related financing activities | (39,112) | (4,247) | (9,030) | (52,389) |
| Investing activities | 12,389 | 808 | 1,348 | 14,545 |
| Net increase/(decrease) in cash and cash equivalents | 48,302 | 3,085 | 1,975 | 53,362 |
| Cash and cash equivalents, beginning of year | 61,388 | (9,023) | 43,315 | 95,680 |
| Cash and cash equivalents, end of year | <u>\$ 109,690</u> | <u>\$ (5,938)</u> | <u>\$ 45,290</u> | <u>\$ 149,042</u> |

b. University of Louisville Foundation, Inc. and Affiliates

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

Total expenditures by the Foundation on behalf of the University for the years ended June 30, 2016 and 2015 were \$0 and \$24.7 million, respectively. Complete financial statements for the Foundation can be obtained from Foundation Administration at University of Louisville, 215 Central Avenue, Suite 304, Louisville, KY 40292.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences.

1. Endowment

The Foundation's endowment consists of approximately 1,600 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds

and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's board of directors has interpreted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), adopted in Kentucky in July 2010 and located at KRS 273.1 to 273.10 as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets, until donor stipulations are fulfilled.

The composition of net assets by type of endowment fund at June 30, 2016 and 2015, was (in thousands):

| 2016 | | | | |
|----------------------------------|---------------------|-------------------------------|-------------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ (18,003) | \$ 250,711 | \$ 449,518 | \$ 682,226 |
| Board-designated endowment funds | 56,756 | - | - | 56,756 |
| | <u>\$ 38,753</u> | <u>\$ 250,711</u> | <u>\$ 449,518</u> | <u>\$ 738,982</u> |
| 2015 | | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ (4,219) | \$ 270,226 | \$ 436,515 | \$ 702,522 |
| Board-designated endowment funds | 89,821 | - | - | 89,821 |
| | <u>\$ 85,602</u> | <u>\$ 270,226</u> | <u>\$ 436,515</u> | <u>\$ 792,343</u> |

Changes in endowment net assets for the years ended June 30, 2016 and 2015 were (in thousands):

| | 2016 | | | |
|--|--------------|------------------------|------------------------|------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 85,602 | \$ 270,226 | \$ 436,515 | \$ 792,343 |
| Investment return: | | | | |
| Investment and endowment income | 3,240 | 8,696 | - | 11,936 |
| Net appreciation (depreciation) | (22,922) | 4,802 | | (18,120) |
| Net depreciation funds held in trust by others | - | - | (1,240) | (1,240) |
| Total investment return | (19,682) | 13,498 | (1,240) | (7,424) |
| Contributions | 243 | 1,394 | 14,483 | 16,120 |
| Appropriation of endowment assets for expenditures | (27,410) | (34,407) | - | (61,817) |
| Other changes | - | - | (240) | (240) |
| Endowment net assets, end of year | \$ 38,753 | \$ 250,711 | \$ 449,518 | \$ 738,982 |
| | 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year, as restated | \$ 119,629 | \$ 279,029 | \$ 425,687 | \$ 824,345 |
| Investment return: | | | | |
| Investment and endowment income | 2,394 | 6,026 | 1,080 | 9,500 |
| Net appreciation (depreciation) | (6,673) | 3,172 | - | (3,501) |
| Net depreciation funds held in trust by others | - | - | (535) | (535) |
| Total investment return | (4,279) | 9,198 | 545 | 5,464 |
| Contributions | 4,065 | 5,366 | 10,392 | 19,823 |
| Appropriation of endowment assets for expenditures | (33,813) | (23,367) | - | (57,180) |
| Other changes | - | - | (109) | (109) |
| Endowment net assets, end of year | \$ 85,602 | \$ 270,226 | \$ 436,515 | \$ 792,343 |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2016 and 2015, consisted of (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UPMIFA | <u>\$ 449,518</u> | <u>\$ 436,515</u> |
| Temporarily restricted net assets - term endowment funds | <u>\$ 5,896</u> | <u>\$ 8,372</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets and aggregated to approximately \$18 million and \$4.2 million at June 30, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

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

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

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average market value over the prior three years through the calendar year-end preceding the year in which expenditure is planned. In establishing this policy, the Foundation balances the long-term expected return on its endowment against the level of expenditures required to support the University's goals and objectives. Recognizing that markets are volatile, the Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. For the fiscal year ended June 30, 2015, the Foundation board of directors approved the standard spending policy and approved the mandatory re-investment of unspent carryover. This modification was designed to dampen the reduction in allocated spending funds for the fiscal year, without damaging the long-term performance of the endowment.

The Foundation has adopted an investment objective whereby the average annual return over the long term should equal the rate of inflation (measured by the three-year moving average of the Gross Domestic Product (GDP) Deflator) plus the average level of spending from

the Combined Endowment Fund. The annual return for the Combined Endowment Fund was -5.5% and -0.5% in 2016 and 2015, respectively.

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

Included within the endowment are \$85.2 million and \$69.3 million at June 30, 2016 and 2015, of loans to affiliates of the University.

2. Investments and Investment Income

Investments as of June 30, 2016 and 2015, are as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Investment in partnerships and funds of funds | \$419,937 | \$454,051 |
| Mutual funds | 68,677 | 77,305 |
| Marketable alternatives | 100,173 | 138,648 |
| Preferred and common stock | 39,843 | 38,837 |
| Corporate bonds | - | 2,859 |
| U.S. government securities | - | 205 |
| Equity method investments | 3,679 | 6,496 |
| Certificate of deposit | 8,169 | 8,149 |
| Land and buildings | - | 1,178 |
| Total investments | <u>\$ 640,478</u> | <u>\$ 727,728</u> |

Restricted investments are restricted by bond indenture for payment of debt service and repairs and replacement. Restricted investments as of June 30, 2016 and 2015, are as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---------------------------|-----------------|-----------------|
| Money market mutual funds | \$ 2,930 | \$ 3,310 |
| U.S. agency obligations | 1,689 | 2,589 |
| | <u>\$ 4,619</u> | <u>\$ 5,899</u> |

Total investment return for the years ended June 30, 2016 and 2015, is reflected in the consolidated statements of activities as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-----------------|
| Interest income | \$ 1,313 | \$ 1,181 |
| Endowment income | 4,223 | 8,995 |
| Net realized and unrealized gain (loss) on investments | <u>(10,631)</u> | <u>(4,686)</u> |
| | <u>\$ (5,095)</u> | <u>\$ 5,490</u> |

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

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

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. In an effort to mitigate this market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

The major portion of long-term investments is pooled in the Combined Endowment Fund, which is the general endowment pool for the Foundation. The Combined Endowment Fund is pooled using a market value basis, with each individual fund subscribing to, or disposing of, units on the basis of the market value per unit at the end of the prior calendar month during which the transaction takes place. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

a. Alternative Investments

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at June 30, 2016 and 2015, consisted of the following (in thousands):

| | 2016 | | | |
|-----------------------------------|------------|----------------------|---|--|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Fixed income funds (A) | \$ 12,933 | \$ - | Once Monthly | Various from 10 to 30 days |
| U.S. equity funds (B) | 76,545 | - | Various from semi-monthly to quarterly | Various from 5 to 60 days |
| International equities funds (C) | 174,041 | - | Various from any valuation day to quarterly | Various from 10 to 60 days |
| Equity long/short hedge funds (D) | 47,755 | - | Various from quarterly to illiquid | Various from 30 to 60 days, if allowable |
| Multi-strategy hedge funds (E) | 47,821 | - | Various from monthly to illiquid | Various from 45 to 90 days |
| Natural resources funds (F) | 37,158 | 14,413 | Various from any valuation day to illiquid | Various from 10 to 90 days, if allowable |
| Opportunistic hedge funds (G) | 23,384 | 2,771 | Various from quarterly to illiquid | Various from 45 to 90 days, if allowable |
| Private equity funds (H) | 100,473 | 62,141 | Illiquid | N/A |

| 2015 | | | | |
|-----------------------------------|-------------------|-----------------------------|---|--|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Fixed income funds (A) | \$ 15,470 | \$ - | Various from once monthly to illiquid | Various from 10 to 30 days |
| U.S. equity funds (B) | 95,732 | - | Various from semi-monthly to quarterly | Various from 5 to 60 days |
| International equities funds (C) | 201,274 | - | Various from any valuation day to quarterly | Various from 10 to 60 days |
| Equity long/short hedge funds (D) | 60,296 | - | Various from quarterly to illiquid | Various from 30 to 60 days, if allowable |
| Multi-strategy hedge funds (E) | 73,061 | - | Various from quarterly to illiquid | Various from 15 to 90 days |
| Natural resources funds (F) | 31,696 | 4,109 | Various from any valuation day to illiquid | Various from 10 to 90 days, if allowable |
| Opportunistic hedge funds (G) | 26,708 | 5,832 | Various from quarterly to illiquid | Various from 45 to 90 days, if allowable |
| Private equity funds (H) | 88,462 | 57,630 | Illiquid | N/A |

- A. This category includes investments in attractive credit opportunities in investment grade corporate bonds, high yield bonds, bank loans, securitized bonds, strategic global fixed income opportunities in countries, currencies, sectors and securities as well as global credit arbitrage opportunities. As of June 30, 2016, approximately \$12.9 million of the amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days.
- B. This category includes two investments in U.S. equities, with one focused on publicly traded MLPs and the other on large cap stocks. All securities are traded on U.S. exchanges. The large cap investment, valued at \$66.5 million on June 30, 2016, is redeemable at calendar quarter-end with 60 days prior notice. The MLP investment is redeemable monthly with 30 days prior notice.
- C. This category includes investments in international equities in emerging and developed markets across all capitalization classes. Approximately 43% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 50% of the funds invested can be redeemed monthly with 10 to 60 days prior notice. The remaining investment is redeemable at calendar year quarter ends with 60 days prior notice.
- D. This category includes investments in hedge funds that take both long and short positions in global equities and other securities. Most funds in this category use margin and other forms of leverage as well as various derivatives, including swaps, options, futures and forward contracts when deemed appropriate by the respective manager. Investments representing 70% of the value of the investments in this category have quarterly lockup periods as of June 30, 2016. Another investment, totaling \$.3 million is illiquid.
- E. This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Approximately 18% of investments in this category can be redeemed at

calendar year quarter ends with prior notification of 45 days. Approximately 63% of the investments in this category can be redeemed every 12 months with prior notification of 45 to 90 days. Approximately 18% of investments in this category can be redeemed every 24 months with 90 days notification. Approximately 1% of investments is illiquid.

- F. This category includes private oil and gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals and agricultural commodities. The funds typically invest in both the infrastructure and production facilities as well as in the actual metal, commodity or resource. Approximately 38% of the investments are private lock up funds with projected partnership maturities ranging from 2018 to 2028. The other investment can be redeemed monthly with 30-day prior notification. The remaining investment is illiquid.
- G. This category includes investments in distressed-securities, -real estate and -credit. As a class, these investments strive to find U.S. and non-U.S. financial assets, real estate, debt obligations and securities that are inefficiently priced as a result of business, financial, market or legal uncertainties. Investments will include publicly traded securities and private investments. Four of these funds, with a combined value of \$6.5 million, can never be redeemed prior to partnership termination as specified in the limited partnership agreements. These funds have expected partnership maturities ranging from 2012 to 2022. Distributions from each fund are made as the underlying investments of the funds are liquidated. One other fund, with a value of \$4.6 million is available at calendar quarters with advance notice of 45 days. All remaining investments in this class can be redeemed on their respective annual anniversaries of investment with 90 days prior notice.
- H. This category includes several funds that invest in private equity of U.S. companies, international companies and U.S. real estate. Also included are several funds focusing on U.S. venture capital opportunities. One fund specializes in mezzanine debt for mid-cap U.S. companies. Approximately \$15.6 million is equally invested among 11 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2016 to 2030. Distributions from each fund will be made as the underlying investments of the funds are liquidated. All funds are commitment based investments with managers calling down commitments as investment opportunities arise. The June 30, 2016, fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2016, are \$62.1 million, which is expected to be drawn over the next six years.

3. Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of 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 supported by little or no market activity and 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, 2016 and 2015 (in thousands):

| 2016 | | | | |
|--|-------------------|---|--|--|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Preferred and common stock | \$ 39,843 | \$ 38,287 | \$ - | \$ 1,556 |
| Mutual funds | 68,677 | 67,572 | 1,105 | - |
| Investment in partnerships and funds of funds | 419,938 | - | 286,732 | 133,206 |
| Marketable alternatives | 100,173 | - | 47,408 | 52,765 |
| Funds held in trust by others | 50,798 | - | 50,798 | - |
| Restricted investments | | | | |
| Money market mutual funds | 2,930 | 2,930 | - | - |
| U.S. agency obligations | 1,689 | - | 1,689 | - |
| 2015 | | | | |
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments | | | | |
| Preferred and common stock | \$ 38,635 | \$ 35,561 | \$ - | \$ 3,074 |
| Corporate bonds | 2,859 | - | 2,859 | - |
| Mutual funds | 77,205 | 77,205 | - | - |
| Investment in partnerships and funds of funds | 453,563 | - | 261,168 | 192,784 |
| U.S. government securities | 205 | - | 205 | - |
| Marketable alternatives | 138,648 | - | 59,846 | 78,802 |
| Funds held in trust by others | 51,945 | - | 51,945 | - |
| Restricted investments | | | | |
| Money market mutual funds | 3,310 | 3,310 | - | - |
| U.S. agency obligations | 2,589 | - | 2,589 | - |

Following is a description of the 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, 2016.

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 NAV (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 NAV (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, 2016 and 2015. 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, 2015 | \$ 192,395 | \$ 78,802 | \$ 3,074 |
| Total realized and unrealized gains and losses | 7,302 | (6,349) | (2,243) |
| Purchases | 25,057 | - | (2,298) |
| Sales | (19,771) | (29,413) | 1,839 |
| Transfers | (71,777) | 9,725 | 1,184 |
| Balance, June 30, 2016 | <u>\$ 133,206</u> | <u>\$ 52,765</u> | <u>\$ 1,556</u> |
| 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 | <u>\$ 1,054</u> | <u>\$ (10,577)</u> | <u>\$ (4)</u> |
| | Investment in Partnerships and Funds of Funds | Marketable alternatives | Preferred and common stock |
| Balance, July 1, 2014 | \$ 192,784 | \$ 101,025 | \$ 2,638 |
| Total realized and unrealized gains and losses | 3,863 | (4,244) | 436 |
| Purchases | 26,380 | - | - |
| Sales | (39,266) | (17,979) | - |
| Transfers | 8,634 | - | - |
| Balance, June 30, 2015 | <u>\$ 192,395</u> | <u>\$ 78,802</u> | <u>\$ 3,074</u> |
| 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 | <u>\$ 816</u> | <u>\$ (4,244)</u> | <u>\$ 436</u> |

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, 2016 and 2015, are reported in the consolidated statements of activities as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Total gains and losses | \$ (1,289) | \$ 55 |
| Change in unrealized gains or losses relating to assets still held at the consolidated statement of financial position date | \$ (9,527) | \$ (2,992) |

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2016 and 2015 (in thousands).

| | <u>Fair Value at 6/30/16</u> | <u>Valuation Technique</u> | <u>Unobservable Inputs</u> | <u>Range (Weighted Average)</u> |
|---|----------------------------------|-------------------------------|--------------------------------|---|
| Investment in partnerships and funds of funds | 133,206 | Net asset value or equivalent | NAV | N/A |
| Marketable alternatives | 52,765 | Net asset value or equivalent | NAV | N/A |
| Preferred and common stock | 1,556 | Net asset value or equivalent | NAV | N/A |

| | <u>Fair Value at 6/30/15</u> | <u>Valuation Technique</u> | <u>Unobservable Inputs</u> | <u>Range (Weighted Average)</u> |
|---|----------------------------------|-------------------------------|--------------------------------|---|
| Investment in partnerships and funds of funds | 192,395 | Net asset value or equivalent | NAV | N/A |
| Marketable alternatives | 78,802 | Net asset value or equivalent | NAV | N/A |
| Preferred and common stock | 3,074 | Net asset value or equivalent | NAV | N/A |

4. Guarantees

a. Bonds Payable

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

| | <u>2016</u> | |
|-----------------------|----------------------------|-------------------------|
| <u>Residence Hall</u> | <u>Aggregate limit</u> | <u>Annual limit</u> |
| Bettie Johnson Hall | \$ 17,195 | \$ 2,877 |
| Kurz Hall | 11,330 | 938 |

b. Notes Payable

ULF was the guarantor of the KYT notes payable. As of June 30, 2016, the outstanding principal has been paid in full and the Foundation was released of this guaranty.

In May 2013, ULF guaranteed \$7.5 million of the University of Louisville Physicians, Inc. (ULP), a discretely presented component unit of the University, \$15 million line of credit maturing on June 30, 2014. In May 2014, ULF agreed to an extension and first amendment extending the guarantee to November 28, 2014. In November 2014, ULF agreed to an extension and second amendment extending the guarantee to December 19, 2014. In December 2014, ULF agreed to an extension and third amendment extending the guarantee to December 12, 2015. In April 2016, ULF agreed to an extension and fourth amendment extending the guarantee to December 2016, and included in the amendment was an increase to the line of credit of \$18 million. As of June 30, 2016, the principal amount outstanding was approximately \$16.4 million.

In September 2013, ULF guaranteed \$19.9 million of the TNRP notes payable. As of June 30, 2016 and 2015, the outstanding principal related to the notes payable was \$19.9 million.

c. Loans

As of June 30, 2016, ULF guaranteed four loans related to certain University student organizations including fraternities and sororities. 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 \$1.1 million and \$1.2 million outstanding, as of June 30, 2016 and 2015, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loan of Campus One, LLC. As of June 30, 2016 and 2015, the amount under guarantee was \$8.1 million and \$8.4 million, respectively.

In July 2013, ULF guaranteed 51% of the outstanding loan of Campus Two, LLC. As of June 30, 2015, the amount under guarantee was \$6.6 million. ULDC's membership interest in Campus Two, LLC was assigned to ULREF in March 2016.

In May 2014, ULF guaranteed a portion of Pharmacogenetics 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. In February 2015, PGxL entered into a replacement line of credit agreement with a different institution. ULF's guarantee on the February 2015 is a maximum of \$3.5 million plus accrued interest, fees and other related charges. PGxL's line of credit was extended through September 5, 2016. On September 14, 2016, the financial institution sent PGxL a default notice agreeing to forbear all remedies until September 30, 2016.

As of June 30, 2016 and 2015, the amount under guarantee was \$3 million and \$2.8 million, respectively. PGxL's line of credit expired May 2016. For the years ended June 30, 2016 and 2015, ULF recorded a loss related to this guarantee of \$1.9 million and \$0 million, respectively, and is included in other expenses in the consolidated statements of financial position.

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, 2016 and 2015, the total amount outstanding on the Mortgage Revenue Bonds was \$40 million and \$46.8 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, which began in July 2008. The annual lease payments due from MSPA to UFOB are approximately \$3.5 million, with an annual inflation of 3%.

5. 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 \$21.6 million as of June 30, 2016 and 2015. The Foundation's portion of the market value of the remaining trusts was approximately \$29.2 million and \$30.3 million as of June 30, 2016 and 2015, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2016 and 2015, the Foundation recorded a loss of \$1.2 million and recorded income of approximately \$.5 million, respectively, from these trusts.

6. 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, 2016 and 2015, the Foundation held approximately \$25.9 million and \$30.6 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 health care services. As of June 30, 2016 and 2015, the Foundation held approximately \$8.0 million and \$9.8 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, 2016 and 2015, the Foundation held approximately \$0.2 million 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.

7. Transactions with ULREF

During 2016, ULF assigned its membership interests in AAF, LMCDC, Nucleus, KYT and PPL to ULREF. No consideration was exchanged or will be transferred for the assignments of membership interests. These assignments resulted in a loss (gain) on deconsolidation in the consolidated statements of activities as shown below.

During 2016, ULF's affiliate, University of Louisville Development Corporation, LLC, also assigned its membership interest in a joint venture, Campus Two, to ULREF, for no consideration. Contribution of this investment resulted in an inherent contribution expense of approximately \$5,756,000, which represents the fair value of the investment. This amount has been included in contribution expenses in the consolidated statement of activities.

In addition, ULF contributed capital assets to ULREF through deed transfers for no consideration in 2016. These contributions of capital assets resulted in inherent contribution expenses recognized at fair value in the consolidated statement of activities.

ULREF incurred approximately \$364,000 of third-party acquisition-related costs in connection with these transactions during the year ended June 30, 2016. These costs are included in professional services in the consolidated statements of activities. As a result of the assignments and transfers, ULREF will further its mission to acquire, maintain, improve, leverage, manage, lease and convey real and personal property for the benefit of the University. Contributions to ULREF for the years ended June 30, 2016 and 2015, consisted of the following (in thousands):

| | 2016 | | | 2015 |
|--|-------------------------|--|---------------------------------------|--------------------------|
| | Contribution Expense | Loss (Gain) on Disposal of Capital Assets | Loss (Gain) on Deconsolidatio n | Contributions Expense |
| Second Street/small lots capital assets | \$ 690 | \$ 1,439 | \$ - | \$ - |
| Chevron capital assets | 1,570 | 3,124 | - | - |
| Doyle capital assets | 550 | (106) | - | - |
| Dulworth capital assets | 3,100 | 124 | - | - |
| Equipment depot capital assets | 2,100 | 1,446 | - | - |
| Humana Gym capital assets and associated lease | 700 | 598 | - | - |
| Icebreakers capital assets and associated lease | 1,170 | 41 | - | - |
| KDP capital assets and associated lease | 2,400 | (1,237) | - | - |
| Lee Street capital assets and associated lease | 452 | 113 | - | - |
| Martco/Byrne capital assets | 500 | 861 | - | - |
| Old World Pasta capital assets | 2,650 | (455) | - | - |
| Presidents Home capital assets and associated lease | 1,789 | (981) | - | - |
| Ray Avenue Carriage House capital assets | 877 | 376 | - | - |
| Solae capital assets | 3,600 | 1,057 | - | - |
| Third Street Properties capital assets | 36 | 81 | - | - |
| Southern Kitchens capital assets | 1,700 | (321) | - | - |
| Campus Two | 5,756 | (3,376) | - | - |
| Cardinal Station | - | - | 8,527 | - |
| KYT | - | - | (19,553) | - |
| LMCDC | - | - | 2,539 | - |
| Nucleus | - | - | 7,966 | - |
| PPL | - | - | 620 | - |
| Contribution of land from the Foundation for Preston | - | - | - | (3,171) |
| Contribution of cash from the Foundation for Preston | - | - | - | (925) |
| Contribution of cash from LMCDC for Preston | - | - | - | (2,950) |
| Contribution expense for satisfaction of pledge | 7,000 | - | - | - |
| | <u>\$ 36,640</u> | <u>\$ 2,784</u> | <u>\$ 99</u> | <u>\$ (7,046)</u> |

There were approximately \$188,000 of contributions directly to ULREF that did not relate to property transfers or the assignment of membership interests. Additionally, there were contributions of approximately \$409,000 to Pediatrics Medical Office Building, Inc., of which ULREF is a member. These have been excluded from the table above.

As discussed in Note 13, in connection with the assignment of membership interests of KYT and Nucleus, the Foundation entered into a memorandum of agreement with ULREF, KYT and Nucleus whereas ULREF promises and agrees to pay to the Foundation approximately \$28.9 million.

On January 27, 2015, 220 South Preston, LLC (Preston, whose sole member is ULREF, entered into a Master Parking Lease Agreement with the Foundation whereby the Foundation will lease certain parking spaces in the garage from ULREF, and in exchange will pay an amount to the ULREF an amount that would cause the annual debt service coverage ratio to be not less than 1.25 to 1.00 per month. The term of this agreement began on January 27, 2015, and will continue for a period of not earlier than the maturity date, December 2017, or earlier retirement of the garage construction loan. As of June 30, 2016 and 2015, the Foundation has not made any payments to Preston.

c. University of Louisville Real Estate Foundation.

The University of Louisville Real Estate Foundation, Inc. and affiliates (collectively, "ULREF") is a legally separate, tax exempt component unit of the University, under the provisions of GASB Statement No. 39. ULREF is a Kentucky not-for-profit corporation formed on November 19, 2014. ULREF's mission is to acquire, maintain, improve, leverage, manage, lease, and convey real and personal property for the benefit of the University. The University of Louisville

Foundation, Inc. (“Foundation”) has contributed membership interest and capital assets to ULREF for the purpose of furthering the mission of ULREF.

As directed by its Board of Directors, ULREF transfers a portion of its unrestricted resources to support a variety of the University’s activities. Although the University does not control the timing or amount of receipts from ULREF, the majority of resources, or income thereon, which the Foundation holds, manages and invests is for the benefit of the University. Because these resources held by ULREF can only be used by, or for the benefit of, the University, ULREF is considered a component unit of the University and is discretely presented in the University’s financial statements.

ULREF is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to ULREF’s financial information in the University’s financial statements for these differences.

Complete financial statements for ULREF can be obtained from Foundation Administration at University of Louisville, 215 Central Avenue, Suite 304, Louisville, KY 40292.

1. Capital Assets

| | 2016 | 2015 |
|-----------------------------------|-------------------|-----------------|
| Land and land improvements | \$ 53,653 | \$ 3,171 |
| Buildings | 28,763 | - |
| Building improvements | 624 | - |
| Tenant finish | 2,510 | - |
| Furniture, fixtures and equipment | 1,365 | - |
| Construction in progress | 15,281 | 4,837 |
| Accumulated depreciation | (1,691) | - |
| | <u>\$ 100,505</u> | <u>\$ 8,008</u> |

2. Acquired Lease Intangible Assets and Liabilities

The approximate carrying basis and accumulated amortization of recognized intangible assets and liabilities at June 30, 2016 and 2015, were (in thousands):

| | 2016 | | 2015 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets and liabilities | | | | |
| In-place leases | \$ 1,268 | \$ (244) | \$ - | \$ - |
| Above market leases | \$ 2,986 | \$ (110) | \$ - | \$ - |
| Tax incremental financing | \$ 116,600 | \$ (3,602) | \$ - | \$ - |
| Below market leases | \$ (1,420) | \$ 173 | \$ - | \$ - |

Amortization expense for the year ended June 30, 2016, and for the period from inception (November 14, 2014), through June 30, 2015, was approximately \$3,783,000 and \$0, respectively.

Tax incremental financing (TIF) intangibles were recorded in connection with the transfer of membership interest from the Foundation. The value of the intangible was derived by discounting projected future increment payments over the remaining life of the Louisville Life and Health Sciences and University of Louisville Research Park Project TIF agreements. No intangible value was assigned to the Shelbys Research and Technology Park Project.

Of acquired intangibles, there was approximately \$154,000 which was written off in connection with modified terms of a certain amended and restated license agreement.

Intangible assets with finite lives related to in-place leases and above or below market leases are being amortized on the straight-line basis over periods ranging from one to seven years. Intangible assets related to TIF are being amortized on the straight-line basis over periods ranging from 26 to 30 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

The amortization for acquired TIF intangibles, in-place leases and above and below market leases, net during the next five years and thereafter, assuming no early lease terminations, is as follows:

| For the year ending June 30, | In-Place Leases | Above Market Leases | Tax Incremental Financing | Below Market Leases |
|------------------------------|----------------------------|------------------------------------|--|------------------------------------|
| 2017 | \$ 290 | \$ 179 | \$ 4,364 | \$ 285 |
| 2018 | 238 | 172 | 4,364 | 257 |
| 2019 | 166 | 127 | 4,364 | 120 |
| 2020 | 93 | 125 | 4,364 | 57 |
| 2021 | 24 | 125 | 4,364 | 14 |
| Thereafter | 213 | 2,148 | 91,178 | 514 |
| Total | <u>\$ 1,024</u> | <u>\$ 2,876</u> | <u>\$ 112,998</u> | <u>\$ 1,247</u> |

3. Notes Payable

Note payable consists of the following at June 30, 2016 and 2015 (in thousands):

| | Description | Fiscal Year of Maturity | 2016 | 2015 |
|--|---|------------------------------------|------------------|-----------------|
| Construction Loan Agreement - 220 Preston, LLC | Variable rate based on LIBOR plus 1.5% (1.97% at June 30, 2016), with monthly interest only payments commencing February 2015 and principal payment at maturity | 2018 | \$ 8,272 | \$ 2,753 |
| Note Payable - KYT, LLC | Variable rate based on LIBOR plus 1.95% (2.42% at June 30, 2016), with interest only payments commencing August 2016 and principal payment at maturity | 2022 | 19,500 | - |
| Line of Credit - ULREF | Variable rate based on LIBOR plus 1.95% (2.42% at June 30, 2016), with interest only payments commencing August 2016 through maturity | 2019 | 32 | - |
| | | | <u>\$ 27,804</u> | <u>\$ 2,753</u> |

Preston has a construction loan agreement with a bank that has a maximum draw available amount of \$10.1 million, which is secured by Preston's real estate and assignment of lease. The terms of the agreement require Preston to maintain a debt service coverage ratio of 1.00

to 1.00, which is measured annually on December 31, commencing on December 31, 2016. The principal is due in full on December 31, 2017.

In June 2016, KYT entered into a note payable with a financial institution to refinance \$19.5 million borrowed in relation to the purchase of property adjacent to the University in 2008. The principal is due in full on July 2021. The note is collateralized by mortgages on properties and a guarantee from AAF and ULREF. ULREF is subject to certain financial covenants under the terms of the note beginning with fiscal year ending June 30, 2017.

In June 2016, ULREF entered into a \$7.0 million line of credit agreement with a financial institution, which matures on July 1, 2018. The line is collateralized by mortgages and a guarantee from AAF. ULREF is subject to certain financial covenants under the terms of the note beginning with fiscal year ending June 30, 2017. Subsequent to year-end, ULREF borrowed approximately \$6,967,000 on the line of credit.

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

| For the year ending June 30, | Principal Due |
|------------------------------|--------------------------|
| 2017 | \$ - |
| 2018 | 8,272 |
| 2019 | 32 |
| 2020 | - |
| 2021 | - |
| Thereafter | 19,500 |
| | <u>\$ 27,804</u> |

4. Leasing Activities

The Real Estate Foundation leases space to tenants under noncancellable operating leases. As of June 30, 2016, the Real Estate Foundation had various leases expiring in one to 11 years, through 2027. These leases generally require the Real Estate Foundation to pay all executory costs (property, taxes, maintenance and insurance).

Rental revenue at June 30, 2016 and 2015, was as follows (in thousands):

| For the year ending June 30, | 2016 | 2015 |
|------------------------------|-----------------|-------------|
| Base minimum rents | \$ 2,905 | \$ - |
| Common area maintenance | 23 | - |
| | <u>\$ 2,928</u> | <u>\$ -</u> |

Future leasing rent payments due to ULREF during the next five years and thereafter were as follows (in thousands):

| For the year ending June 30, | 2016 Leasing Payments Due | 2015 Leasing Payments Due |
|------------------------------|--|--|
| 2016 | \$ 1,490 | \$ - |
| 2017 | 1,235 | - |
| 2018 | 1,022 | - |
| 2019 | 645 | - |
| 2020 | 550 | - |
| Thereafter | 1,189 | - |
| Total | <u>\$ 6,131</u> | <u>\$ -</u> |

5. Acquisitions

During the year ended 2016, ULREF acquired the net assets of AAF, LMCDC, Nucleus, KYT and PPL (collectively Acquirees). The acquisitions were accomplished by ULREF becoming the sole member of the Acquirees by assignment of their membership rights from the Foundation, and its affiliate, to ULREF, and no consideration was exchanged or will be transferred for the acquisitions. As a result of the acquisitions, ULREF will further its mission related to real property for the benefit of the University.

The acquisitions of membership interests resulted in inherent contributions received of approximately \$138,541,000, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed in accordance with ASC 958-805. This amount has been included in contributions in the consolidated statements of activities.

ULREF acquired an investment in the Campus Two joint venture by assignment of membership interest from the Foundation's affiliate, University of Louisville Development Corporation, LLC, to ULREF, for no consideration. Contribution of this investment resulted in an inherent contribution received of approximately \$5,755,000, which represents the fair value of the investment. This amount has been included in contributions in the consolidated statement of activities.

In addition, ULREF acquired capital assets from the Foundation through deed transfers for no consideration. Certain of these capital assets are accounted for as acquisitions under ASC 958-805, whereby identifiable assets, liabilities and intangibles assets and liabilities are recognized at fair value. The remaining properties are contributions of capital assets and are recognized at their estimated fair values at the date of contribution. Significant capital assets received include Solae property capital assets, Dulworth property capital assets, Old World Pasta capital assets, Kidney Dialysis Property capital assets and associated leases and President's Home and Carriage House property capital assets and associated leases. Additionally, the Bed, Bath & Beyond property was contributed from the Foundation and an unrelated donor.

The acquisitions and contributions of capital assets resulted in inherent contributions received of approximately \$31,232,000, which represents the net recognized amount of the identifiable assets acquired over the liabilities assumed. This amount has been included in contributions in the consolidated statements of activities.

ULREF incurred approximately \$364,000 of third-party acquisition-related costs in connection with these acquisitions during the year ended June 30, 2016. These costs are included in professional services in the consolidated statements of activities.

For the year ended June 30, 2016, ULREF acquisitions and contributions of capital assets included the following recognized amounts of identifiable assets acquired and liabilities assumed (in thousands):

| | Date of Acquisition | Cash and Other Assets | Investments in Joint Ventures | Capital Assets | Goodwill and Intangible Assets (Liabilities) | (Other Liabilities) | (Notes Payable) | Net Contribution Revenue |
|---|---------------------|-----------------------|-------------------------------|----------------|--|---------------------|-----------------|--------------------------|
| Contributions of membership interests from the Foundation and affiliate | | | | | | | | |
| AAF | 9/29/2015 | \$ 44 | \$ - | \$ 11,301 | \$ (208) | \$ (440) | \$ - | \$ 10,697 |
| LMCDC | 8/31/2015 | 3,612 | 353 | - | 116,600 | (1,426) | - | 119,139 |
| PPL | 9/29/2015 | - | - | 5,190 | (410) | (4,475) | - | 305 |
| Nucleus | 9/29/2015 | 2,339 | - | 13,050 | 3,186 | (10,175) | - | 8,400 |
| KYT | 6/23/2016 | 141 | - | 15,900 | 24,201 | (20,742) | (19,500) | - |
| Contributions of investment in joint venture from the Foundation | | | | | | | | |
| Campus Two | 3/9/2016 | - | 5,755 | - | - | - | - | 5,755 |
| Contributions of capital assets from the Foundation | | | | | | | | |
| Second Street/ Small Lots | 9/29/2015 | - | - | 690 | - | - | - | 690 |
| Bed Bath & Beyond | 12/29/2015 | - | - | 7,000 | 46 | - | - | 7,046 |
| Chevron | 12/22/2015 | - | - | 1,570 | - | - | - | 1,570 |
| Doyle | 9/29/2015 | - | - | 550 | - | - | - | 550 |
| Duhworth | 12/7/2015 | - | - | 3,100 | - | - | - | 3,100 |
| Equipment Depot | 12/22/2015 | - | - | 2,100 | - | - | - | 2,100 |
| Humana Gym | 9/29/2015 | - | - | 700 | 37 | - | - | 737 |
| Icebreakers | 9/29/2015 | 5 | - | 1,170 | 160 | - | - | 1,335 |
| KDP | 9/29/2015 | 34 | - | 2,444 | (44) | - | - | 2,434 |
| Lee Street | 9/29/2015 | - | - | 452 | 66 | - | - | 518 |
| Martco/Byrne | 9/29/2015 | - | - | 500 | - | - | - | 500 |
| Old World Pasta | 9/29/2015 | - | - | 2,650 | - | - | - | 2,650 |
| Presidents Home | 12/7/2015 | - | - | 1,789 | - | - | - | 1,789 |
| Ray Ave | 12/7/2015 | - | - | 877 | - | - | - | 877 |
| Solae | 12/22/2015 | - | - | 3,600 | - | - | - | 3,600 |
| Third Street Properties | 9/29/2015 | - | - | 36 | - | - | - | 36 |
| Southern Kitchens | 9/29/2015 | - | - | 1,700 | - | - | - | 1,700 |
| | | \$ 6,175 | \$ 6,108 | \$ 76,369 | \$ 143,634 | \$ (37,258) | \$ (19,500) | \$ 175,528 |

Other liabilities include amounts due to the Foundation under a memo of understanding totaling approximately \$28,879,000 at the acquisition dates above.

Goodwill of \$24,201,000 was recognized in connection with the acquisition of KYT as further described in Note 4. Intangible assets and liabilities include in-place leases, above market leases and below market lease as further described in Note 5, and have a weighted average useful life of 14.4 years.

d. 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. Although the University does not control ULP or the timing of receipts from ULP, because the University and ULP share certain common management and staff,

creating a degree of financial integration, ULP is considered a component unit of the University and is discretely presented in the University's financial statements.

Operations began on January 1, 2012, when the first two physician groups transitioned their practices into ULP. Through June 30, 2016, there were seventeen 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.

Complete financial statements for ULP can be obtained from the administrative offices at UofL Physicians, 300 E. Market Street, Louisville, KY 40202.

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 determined to qualify as charity care, they are not reported as revenue. Charity care charges totaled \$1.0 million and \$2.2 million for the years ended June 30, 2016 and 2015, respectively. Management as estimated its cost incurred to provide charity care to be approximately \$0.5 million and \$1.0 million for each of the years ended June 30, 2016 and 2015, 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, 2016 and 2015 was \$16.5 million and \$12.3 million, respectively. 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 accounting for this investment is appropriate 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 6.12% membership is considered more than a nominal share of the KMRRRG.

3. Net Patient Service Fees Revenue

ULP has agreements with third-party payers that provide for payments at amounts different from its 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, 2016 and 2015 is as follows (in thousands):

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|------------------|
| Gross patient service revenue | \$ 343,349 | \$ 296,730 |
| Less provisions for: | | |
| Contractual adjustments under third-party reimbursement programs | (194,926) | (147,077) |
| Provision for uncollectible accounts | (46,403) | (54,591) |
| | <u>(241,329)</u> | <u>(201,668)</u> |
| Net patient service revenue | <u>\$ 102,020</u> | <u>\$ 95,062</u> |

e. 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, 2016 and 2015 the Center does not have material operations to be presented.

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

| Actuarial Value Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a) / c) |
|---------------------------------|--|--|--|-------------------------------|------------------------------------|--|
| 7/1/2015 | \$ - | 89,683 | 89,683 | 0% | 478,201 | 19% |
| 7/1/2014 | - | 89,098 | 89,098 | 0% | 459,588 | 19% |
| 7/1/2013 | - | 85,282 | 85,282 | 0% | 444,970 | 19% |