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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the University of Louisville and Affiliated Corporations (University) and its aggregate discretely presented component unit, collectively, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. The consolidated financial statements of the component unit, the University of Louisville Foundation, Inc. and Affiliates, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its discretely presented component unit as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012, on our consideration of the University's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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.

BKD, LLP

October 3, 2012

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, 2012, 2011 and 2010. The affiliated corporations include the University of Louisville Research Foundation, Inc. (Research Foundation) and the University of Louisville Athletic Association, Inc. (Association). This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a state supported research university located in the Commonwealth of Kentucky's (Commonwealth) largest metropolitan area. It was a municipally supported public institution for many decades prior to joining the state university system in 1970. The University has three campuses with a Fall 2011 enrollment of 22,249 students and 6,412 faculty and staff members. 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.

The University offers graduate, professional, baccalaureate, and associate degrees, as well as certificates, in over 200 degree programs through 12 schools and colleges. In the 2011-2012, 2010-2011 and 2009-2010 academic years, the University conferred 4,882, 4,686 and 4,534 degrees, respectively, consisting of:

	2012	2011	2010
Baccalaureate	2,688	2,618	2,550
Masters/Specialist	1,438	1,333	1,310
First Professional	361	371	347
Certificate	28	24	26
Doctorate	188	163	163
Associate	11	19	18
Post Baccalaureate	168	158	120

In an effort to improve the Commonwealth's postsecondary education system by the year 2020, the Kentucky Postsecondary Education Improvement Act of 1997 (House Bill 1) was passed. This legislation established a goal for the University to become a nationally recognized metropolitan teaching and research university.

The University has developed a strategic plan through the year 2020. The "2020 Plan. Making it Happen" (the 2020 Plan) strategic plan is firmly grounded in the mission and values of the University and responsive to the appropriate needs of the greater community, the state, the nation and beyond. It articulates strategies to ensure that the University becomes the university of first choice for students and recognized among the nation's foremost public metropolitan research universities with a faculty of distinction who have outstanding national and international reputations in research and other scholarly activities.

The University has made enormous strides in its efforts to become a nationally recognized metropolitan teaching and research university since the Commonwealth passed legislation in 1997 mandating postsecondary education reform. The University reinvested in and reorganized undergraduate education including the honors program, raised the average ACT scores of entering freshmen to 24.7 in the Fall of 2011, and the number of endowed chairs to 150 for fiscal year 2012. The University completed a Dental School renovation project. The project involves the renovation of 95,000 square feet, the addition of 14,300 square feet which created state of the art operatories, refurbished waiting areas and associated laboratory/examining areas. Also included was a total renewal of the building's infrastructure including electrical, mechanical, plumbing and data network.

A new state of the art student sports and recreation center is being constructed on the west side of Belknap campus. The 128,000 square foot facility is scheduled to open Fall of 2013. The center will be the first University building to be heated and cooled with geothermal energy.

The University is dedicated to achieve the goals established by the Commonwealth and the Board of Trustees in an effort to improve the quality of life for the citizens of our metropolitan area and the Commonwealth as it strives to achieve prominence as a premier metropolitan research institution.

Financial Highlights

- The University's financial position remains strong at June 30, 2012, with assets of $1.3 billion and liabilities of $485.9 million. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, were $767.5 million as of June 30, 2012.

- Gross tuition and fees were $248.4 million for the year ended June 30, 2012, an increase of $14.4 million, or 6% compared to the $234.0 million reported in the previous year. Approved tuition rate increases for 2011-12 generated approximately $11.0 million in additional tuition revenues in addition to enrollment increases and other fee increases, which contributed approximately $3.4 million.

- Total general fund appropriations from the Commonwealth were $156.1 million for the year. Appropriations and certain other revenues and expenses are reported under Government Accounting Standards Board (GASB) Statement No. 35 as nonoperating revenues.

- Operating revenues amounted to $559.1 million and operating expenses were $817.2 million resulting in a net operating loss of $258.1 million. When adjusted for $156.1 million in state appropriations and $65.0 million in other net nonoperating revenues, net assets of the University decreased by $37.0 million for the year ended June 30, 2012.

Using the Financial Statements

The University's financial report includes three financial statements: the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. These financial statements are prepared in accordance with GASB principles.

Significant presentations within the financial statements include:

- Revenues and expenses are categorized as either operating or nonoperating. Significant recurring sources of the University's revenues, including state appropriations, gifts and investment income or loss are considered nonoperating.

- Scholarships and fellowships applied to student accounts are shown as a reduction of student tuition, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses.

- Capital assets are recorded net of the effects of accumulated depreciation. Depreciation is recognized on the straight-line basis, over the estimated useful lives of the capital assets, as an operating expense. During the year ended June 30, 2012, the University changed the remaining estimated lives of certain research buildings to more accurately reflect the rate of depreciation, resulting in additional depreciation expense of $12.3 million.

Statements of Net Assets

The statements of net assets present the financial position of the University at the end of the fiscal year and include all assets and liabilities of the University. Net assets, the difference between total assets and total liabilities, provide a snapshot of the current financial condition of the University at the end of a fiscal year. The change in net assets indicates whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less accumulated depreciation. The University's assets, liabilities and net assets at June 30, 2012, 2011 and 2010 are summarized below:

Condensed Statements of Net Assets
June 30, 2012, 2011, and 2010
(In Thousands)

	2012	2011	2010	2012 - 2011 Change	2011 - 2010 Change
ASSETS					
Current assets	$ 196,010	$ 220,962	$ 230,073	$ (24,952)	$ (9,111)
Long-term investments	59,963	62,254	55,281	(2,291)	6,973
Capital assets, net	880,482	882,447	848,871	(1,965)	33,576
Other	116,982	107,270	118,126	9,712	(10,856)
Total assets	1,253,437	1,272,933	1,252,351	(19,496)	20,582
LIABILITIES					
Current liabilities	153,398	150,052	157,844	3,346	(7,792)
Noncurrent liabilities	332,531	318,379	322,160	14,152	(3,781)
Total liabilities	485,929	468,431	480,004	17,498	(11,573)
NET ASSETS					
Invested in capital assets, net	610,298	617,086	594,241	(6,788)	22,845
Restricted - nonexpendable	1,421	1,535	1,268	(114)	267
Restricted - expendable	88,728	89,524	110,259	(796)	(20,735)
Unrestricted	67,061	96,357	66,579	(29,296)	29,778
Total net assets	$ 767,508	$ 804,502	$ 772,347	$ (36,994)	$ 32,155

Assets

As of June 30, 2012, total assets of $1.3 billion exceed liabilities of $485.9 million by a ratio of almost 3:1, consistent with the ratio as of June 30, 2011. Current assets amounting to $196.0 million consist primarily of cash of $110.3 million; loans, accounts and contributions receivable, net of $52.7 million; and deposit with bond trustee and escrow agent of $12.8 million.

Current assets decreased $25.0 million, reflecting the decreases in cash and cash equivalents of $9.6 million, loans, accounts and contributions receivable of $5.0 million, deposit with bond trustee and escrow agent of $4.3 million, and due from University of Louisville Foundation, Inc. (Foundation) of $4.1 million. Cash decreased by approximately $14.5 million due to a decrease in grant funding partially offset by cash from the increase in tuition and fee revenue of $10.2 million. The decrease in loans, accounts and contribution receivable was principally due to the receivable due under the hospital affiliation agreement. Amounts due from the Foundation increase and decrease as the University makes disbursements on behalf of the Foundation and is subsequently reimbursed.

Noncurrent assets total $1.1 billion and include capital assets, net of accumulated depreciation of $880.5 million, which represents 70% of total assets. Other noncurrent long-term investments total $60.0 million and noncurrent loans, accounts and contributions receivable were $33.5 million.

Noncurrent assets increased $5.5 million, including an increase of $13.2 million in restricted cash and cash equivalents. Restricted cash and cash equivalents are principally comprised of cash expendable for the construction and renovation projects of the University. Cash increased $37.5 million for the sale of bonds to construct a student recreation center partially offset by progress payments to contractors, including a project consisting of multiple energy conservation measures within 17 educational and general buildings on the Health Sciences, Shelby and Belknap campuses. This increase was offset by a $5.5 million decrease in loans, accounts, and contributions receivable, net. Contributions receivable on the Association decreased $3.1 million due to receipt of pledge payments during the fiscal year.

Liabilities

As of June 30, 2012, the University's $485.9 million in total liabilities consist of $153.4 million in current liabilities and $332.5 million in noncurrent liabilities. Accounts payable and accrued liabilities of $76.2 million and advances of $51.8 million comprise 83% of total current liabilities. The $3.3 million increase in current liabilities relates primarily to the $8.3 million increase in accounts payable and accrued liabilities partially offset by a $2.8 million decrease in deferred compensation and wages payable. Accounts payable increased principally due to the timing of a $4.5 million wire of retirement contributions. The current portion of deferred compensation decreased due to the payment of contractual obligations of $3.4 million.

Noncurrent liabilities consist chiefly of $279.2 million in bonds and notes payable. This represents the portion of bonds, notes, and leases payable due in excess of one year. The $14.2 million increase in noncurrent liabilities relates primarily to the $12.3 million increase in bonds and notes payable and the $1.1 million increase in other long-term liabilities. Bonds and notes payable increased for the issuance of $33.8 million of General Receipts 2011 Series A and $14.6 million of General Receipts 2012 Series A and for premiums of $3.9 million and $1.2 million from the sale of the 2011 bond and 2012 bond, respectively. Partially offsetting this was the refunding of principal of $18.8 million, and approximately $23.2 million of scheduled maturities. Other long-term liabilities relate principally to the other post-employment benefits of the University.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The University's net assets at June 30, 2012 were $767.5 million. A review of the University's statements of net assets at June 30, 2012 and 2011 reflects the University's prudent management of its financial resources as provided through appropriations from the Commonwealth, private donations transferred from the Foundation and research initiatives. Stability also prevails due to budgetary controls, maintaining and preserving existing assets and conservative utilization of debt.

The Statements of Revenue, Expenses and Changes in Net Assets detail the changes in net assets.

The University's total net assets are summarized into four major categories in accordance with GASB Statement No. 35 reporting requirements as follows:

Invested in capital assets, net of related debt - $610.3 million

The University's investment in net capital assets represent land, buildings, equipment and depreciable library materials, net of accumulated depreciation and debt attributable to the acquisition, construction, or improvement of those assets.

Restricted nonexpendable net assets - $1.4 million

Restricted nonexpendable net assets consist of those net assets that may not be spent due to externally imposed restrictions from external sources such as creditors, donors, laws or government regulations.

These net assets are permanent endowments owned by the University. The principal, as specified by donors, is invested in perpetuity and may not be spent. Permanent endowments donated for the benefit of the University are invested by the Foundation.

Restricted expendable net assets - $88.7 million

Restricted expendable net assets also represent net assets that are subject to externally imposed restrictions governing their use for a particular purpose or period of time. The University's most significant net assets in this category as of June 30, 2012 consist of expendable net assets restricted for capital projects of $34.9 million, debt service of $32.6 million, and institutional support of $10.9 million. Net assets restricted for debt service include funds on deposit with bond trustees as required by various bond indentures and amounts receivable under various pledges that support the Stadium expansion project. The restricted expendable net assets for institutional support relate primarily to the funds received under the agreement with the University Medical Center, Inc. The net assets remain restricted until a contract is completed or the restrictions are otherwise expired.

Unrestricted net assets - $67.1 million

Unrestricted net assets result primarily from net operating income in excess of expenses. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic programs, research initiatives, and capital projects.

Capital Assets

Actual capital additions totaled $60.7 million in 2012. Capital additions consisted mainly of $36.9 million in additions to construction in progress, $13.2 million in investments in equipment including information technology, $8.7 million in investment in library materials and $1.9 million in additions to buildings and land improvements. Construction in progress additions includes $19.5 million for energy saving improvements for buildings on Belknap, Health Sciences and Shelby campuses and $4.1 million to construct a student recreation center.

Prior year discussion

Current assets decreased $9.1 million, reflecting decreases in deposit with bond trustee and escrow agent of $18.7 million for the use of construction funds held in escrow. Cash and cash equivalents decreased $4.4 million. These decreases were partially offset by increases in amounts due from the Foundation of $8.9 million and loans, accounts and contributions receivable, net of $6.4 million. The increase in loans, accounts and contributions receivable was primarily to recognize the amounts receivable under ARRA construction grants.

Noncurrent assets totaling $1.1 billion include capital assets, net of accumulated depreciation of $882.4 million, other noncurrent long-term investments totaling $62.3 million and noncurrent loans, accounts and contributions receivable, net of $39.0 million. Noncurrent assets increased $29.7 million including an increase of $33.6 million in capital assets, net, partially offset by a decrease of $6.8 million in restricted cash and cash equivalents. Restricted cash and cash equivalents decreased principally due to progress payments to contractors and for debt service payments, partially offset by the receipt of $25.0 million from the sale of bonds for energy efficiency improvements.

As of June 30, 2011, the University's $468.4 million in total liabilities consist of $150.0 million in current liabilities and $318.4 million in noncurrent liabilities. Accounts payable and accrued liabilities of $67.9 million and advances of $54.8 million comprise 82% of total current liabilities. The $7.8 million decrease in current liabilities relates primarily to the $12.0 million decrease in accounts payable and accrued liabilities partially offset by a $2.5 million increase in advances. Accounts payable decreased principally for the University's capital construction projects. The change in advances relates mainly to the $4.5 million increase in cash received for the Cardinal Athletic Fund related to the fall 2011 football season.

Noncurrent liabilities consist chiefly of $266.9 million in bonds and notes payable. This represents the portion of bonds, notes, and leases payable due in excess of one year. The $3.8 million decrease in noncurrent liabilities relates primarily to the decrease in the liability associated with the University's employee benefits for retiree health care.

Net assets increased $32.2 million as compared to June 30, 2010. The increase reflects the University's prudent management of its financial resources through budgetary restraint, continuing investment in plant and conservative utilization of debt.

Statements of Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present the University's results of operations. Condensed statements of the University's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010, are summarized on the following page:

Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years ended June 30, 2012, 2011, and 2010
(In Thousands)

	2012	2011	2010	2012 - 2011 Change	2011 - 2010 Change
OPERATING REVENUES					
Student tuition and fees, net	$ 182,902	$ 173,275	$ 158,920	$ 9,627	$ 14,355
Clinical services and practice plan	178,232	195,678	170,476	(17,446)	25,202
Grants and contracts	109,822	113,735	112,939	(3,913)	796
Facilities and administrative cost recoveries	26,899	27,582	27,050	(683)	532
Other	61,277	65,263	52,973	(3,986)	12,290
Total operating revenues	559,132	575,533	522,358	(16,401)	53,175
OPERATING EXPENSES					
Depreciation	62,575	47,427	43,132	15,148	4,295
Other	754,665	731,458	713,588	23,207	17,870
Total operating expenses	817,240	778,885	756,720	38,355	22,165
NONOPERATING REVENUES (EXPENSES)					
State appropriations	156,114	153,985	157,177	2,129	(3,192)
Other nonoperating revenues	65,000	81,522	92,095	(16,522)	(10,573)
Total nonoperating revenues	221,114	235,507	249,272	(14,393)	(13,765)
(Decrease)/Increase in net assets	(36,994)	32,155	14,910	(69,149)	17,245
Net assets at beginning of year	804,502	772,347	757,437	32,155	14,910
Net assets at end of year	$ 767,508	$ 804,502	$ 772,347	$ (36,994)	$ 32,155

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 nonoperating revenues.

Student tuition and fees, net of allowances for scholarships and fellowships of $65.5 million and $60.7 million, were $182.9 million and $173.3 million, or 33% and 30% of total operating revenues, for the years ended June 30, 2012 and 2011, respectively. Gross tuition and fees revenues increased $14.4 million, or 6% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing $11.0 million and increased enrollment and other fee increases providing $3.4 million. The increase was offset by the increase in tuition discount of $4.8 million, due mainly to increased scholarships, which are directly related to tuition rates.

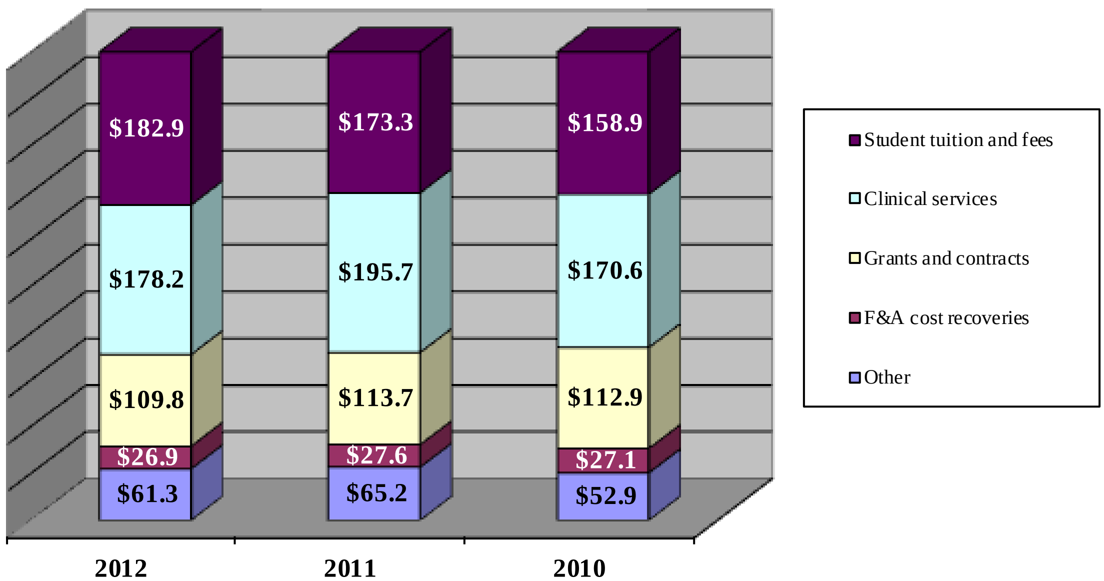
Clinical services and practice plan revenue amounted to $178.2 million and $195.7 million, or about 32% and 34% of total operating revenues, for the years ended June 30, 2012 and 2011, respectively. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Clinical services and practice plans revenue decreased by $17.5 million primarily due to decreased revenue from Medicaid related revenues.

Revenue from grants and contracts was $109.8 million and $113.7 million for the years ended June 30, 2012 and 2011, respectively. Revenue increases and decreases in grants and contracts relate to the change in the number of active grants and contracts.

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 cost recoveries was $26.9 million and $27.6 million for the years ended June 30, 2012 and 2011. These funds assist the University with its vision to become first choice for students and be recognized among the nation's foremost public metropolitan research universities with a faculty of distinction who have outstanding national and international reputations in research and other scholarly activities.

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, 2012, 2011 and 2010 (in millions).

Operating Revenues
Years ended June 30, 2012, 2011, and 2010



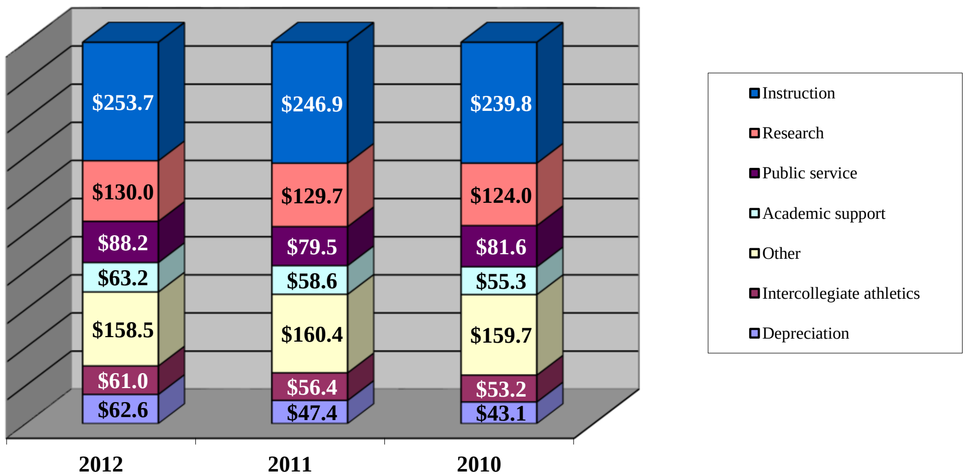
Operating Expenses

Operating expenses amounted to $817.2 million and $778.9 million and exceeded operating revenues by $258.1 million and $203.4 million for the years ended June 30, 2012 and 2011, respectively. When offset by total nonoperating revenues of $221.1 million and $235.6 million, total net assets for the year decreased by $37.0 million and increased by $32.2 million for the years ended June 30, 2012 and 2011, respectively.

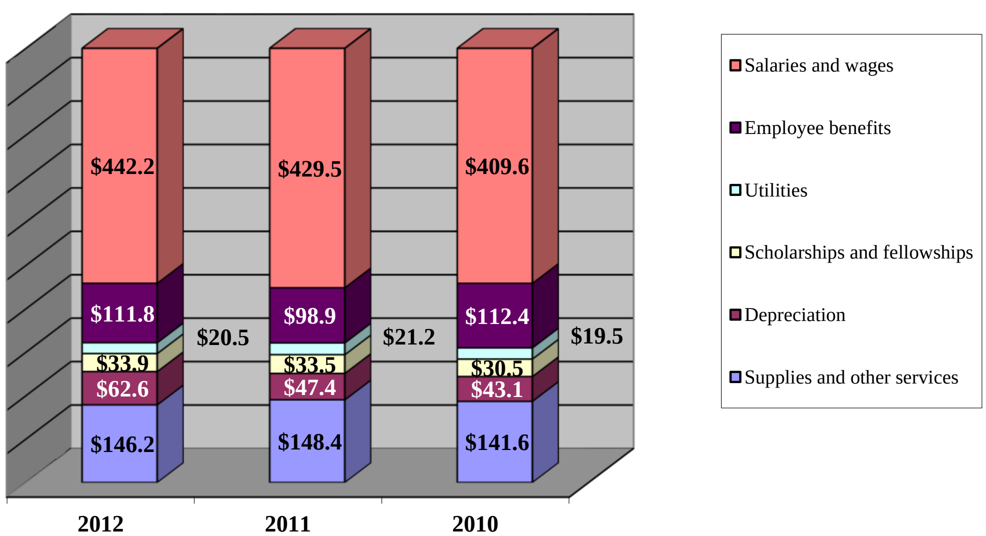
Operating expenses increased by $38.3 million or 5% over the amount reported in the previous year. This reflects the University's commitment to reach goals established under the 2020 Plan, a long-range strategic and financial plan.

Below are graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2012, 2011 and 2010 (in millions):

Operating Expenses by Functional Classification
Years ended June 30, 2012, 2011, and 2010



Operating Expenses by Natural Classification
Years ended June 30, 2012, 2011, and 2010



The University is committed to recruiting and retaining an outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits were $554.0 million and $528.4 million in 2012 and 2011, respectively.

Nonoperating Revenues (Expenses)

General state appropriations amounting to $156.1 million and $154.0 million were the most significant nonoperating revenues for the years ended June 30, 2012 and 2011, respectively.

In total, net nonoperating revenues and other revenues decreased $14.4 million from the prior year including decreases in nonexchange grants and contracts of $7.8 million and realized and unrealized loss or gain on investments of $7.2 million. The decrease in nonexchange grants and contracts is due to the planned loss of ARRA State Fiscal Stabilization funds. The decrease in realized and unrealized loss or gain on investments is due to reduced market value returns on Association investments in the Foundation.

Prior year discussion

Gross tuition and fees revenues increased $19.7 million, or 9% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing $9.5 million and increased enrollment and other fee increases providing $10.2 million. The increase was offset by the increase in tuition discount of $5.4 million. Clinical services and practice plan revenue amounted to $195.7 million and $170.5 million for the years ended June 30, 2011 and 2010, respectively. Clinical services and practice plans revenue increased by $25.5 million primarily due to increased revenue from Medicaid receipts. Revenue from grants and contracts was $113.7 million and $112.9 million for the years ended June 30, 2011 and 2010, respectively. Facilities and administrative cost recoveries was $27.6 million and $27.1 million for the years ended June 30, 2011 and 2010.

Operating expenses amounted to $778.9 million and $756.7 million for the years ended June 30, 2011 and 2010, respectively. Operating expenses increased by $22.2 million or 3% over the amount reported in the previous year.

General state appropriations amounting to $154.0 million and $157.2 million were the most significant nonoperating revenues for the years ended June 30, 2011 and 2010, respectively.

In total, net nonoperating revenues and other revenues decreased $13.8 million from the prior year including decreases in capital gifts of $8.7 million, other nonoperating revenues of $4.4 million, net assets transferred from the Foundation of $4.0 million, capital appropriations of $2.9 million, and investment income of $2.8 million. Capital gifts to the Association decreased due to the recent completion of the stadium expansion fundraising campaign. Partially offsetting the above decreases was an increase in gift revenue of $12.3 million relating to athletic ticket donations to the football and basketball programs.

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, 2012, 2011 and 2010 are summarized below:

Condensed Statements of Cash Flows
Years ended June 30, 2012, 2011, and 2010
(In Thousands)

	2012	2011	2010	2012 - 2011 Change	2011 - 2010 Change
Cash (used)/provided by:					
Operating activities	$ (180,090)	$ (183,996)	$ (151,772)	$ 3,906	$ (32,224)
Noncapital financing activities	231,859	238,763	232,480	(6,904)	6,283
Capital and related financing activities	(54,856)	(69,372)	(66,712)	14,516	(2,660)
Investing activities	6,687	3,461	19,066	3,226	(15,605)
Net increase/(decrease) in cash and cash equivalents	3,600	(11,144)	33,062	14,744	(44,206)
Cash and cash equivalents, beginning of year	172,861	184,005	150,943	(11,144)	33,062
Cash and cash equivalents, end of year	$ 176,461	$ 172,861	$ 184,005	$ 3,600	$ (11,144)

Operating Activities

Cash used for operating activities decreased $3.9 million due to decreased payments to suppliers of $23.2 million and increased tuition and fees of $10.2 million. Partially offsetting these cash sources, cash provided by grants and contracts decreased $6.8 million, cash used for intercollegiate athletics increased $6.3 million, payments to employees increased by $5.0 million, and payments for benefits increased $3.8 million.

Financing Activities

Cash from noncapital financing activities decreased $6.9 million primarily due to decreased receipts from nonexchange grants and contracts of $7.7 million, and gifts of $7.2 million, partially offset by an increase of $8.0 million in cash received from state appropriations. The decrease in nonexchange grants and contracts was due to the receipt during the prior year of $10.0 million, representing the second and final year of a federal grant to offset a decline in state tax revenues. The decrease in gifts was due to reduced contributions to the Association.

Cash used for capital and related financing activities decreased $14.5 million due mainly to an increase in cash provided from proceeds from the issuance of long-term liabilities of $29.7 million, and a decrease in cash used for purchases of capital assets of $24.1 million. Cash provided during the current fiscal year from the issuance of General Receipts 2011 Series A and General Receipts 2012 Series A totaled $37.7 million and $17.0 million, respectively, exceeding the cash provided during the prior year by the issuance of General Receipts 2010 Series A and B of $25.0 million. Partially offsetting the increase in cash sources was an increase in principal paid on long-term liabilities of $18.5 million for the refinancing of CEBRB Series N and O and a decrease in cash provided from deposit with bond trustee of $16.6 million. Cash provided from deposits with bond trustee mainly reimburse the construction related expense of the stadium expansion and a project to improve the energy efficiency of buildings on the Belknap Campus.

Investing Activities

Cash from investing activities increased $3.2 million due mainly to a change in the net amount of investments purchased and sold, which totaled $0.9 million sold for the fiscal year ended June 30, 2012 as compared to $0.8 million purchased for the fiscal year ended June 30, 2011. Cash provided by interest on investments also increased $1.5 million.

Prior year discussion

For the fiscal year ended June 30, 2011, the University's cash and cash equivalents decreased $11.1 million from cash used for operating purposes of $184.0 million and capital and related financing activities of $69.4 million. Partially offsetting this cash provided from noncapital financing activities of $238.8 million, and investing activities of $3.5 million.

Cash used for operating activities increased $32.2 million due to increased payments to suppliers of $36.3 million and payments to employees of $21.0 million partially offset by increased tuition and fees of $13.6 million. Fall 2010 semester rates for tuition and fees increased by 6% over Fall 2009.

Cash from noncapital financing activities increased $6.3 million primarily due to increased receipts from gifts totaling $14.8 million, partially offset by a decrease of $6.1 million in cash received from state appropriations. The increase in gift revenue was mainly due to ticket donations to the Association’s football and basketball programs.

Cash used for capital and related financing activities increased $2.7 million due mainly to a decrease in cash provided from deposit with bond trustee of $15.0 million, cash provided from capital appropriations of $12.1 million and cash provided from capital gifts of $6.4 million. Cash was provided from deposits with bond trustee mainly to reimburse construction related expense of the stadium expansion. The capital appropriation was comprised principally of funds received from the state for the construction of a new Clinical and Translational Research Building. The decrease in capital gifts is related to the construction projects of the Association. The above cash uses were offset by decreased cash used for purchases of capital assets of $34.6 million.

Cash from investing activities decreased $15.6 million due mainly to a change in the net amount of investments purchased and sold, which totaled $0.8 million purchased for the fiscal year ended June 30, 2011 as compared to $11.7 million sold for the fiscal year ended June 30, 2010.

Component Unit

The Foundation is included as a discretely presented component unit of the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are 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, 2012 were $736.4 million, a decrease $34.7 million from the June 30, 2011 balance of $771.1 million. Investments decreased due to the net realized and unrealized loss of $5.9 million, which is due mainly to trends in the markets.

The separate financial statements of the Foundation can be found at the following:
http://www.louisville.edu/vpf/financialadm/statements.html

Economic Factors that May Affect the Future

As mandated by the 1997 House Bill 1- Kentucky Postsecondary Education Improvement Act, (House Bill 1) the University is to become a nationally recognized metropolitan research university. The next important step towards achieving that mandate was the Fall 2008 introduction of the 2020 Plan. The 2020 Plan is the strategic blueprint for the University to achieve House Bill 1's mandate. This plan was drafted after the Board of Trustees instructed President James Ramsey to aggressively move ahead towards the next level in the University's pursuit of excellence.

The University has faced many fiscal challenges that have impacted campus operations both prior to, and subsequent to The 2020 Plan's introduction. The most recent recession of December 2007 – June 2009 has exacerbated the decline in state general fund support. State appropriations in constant dollars have decreased each year from fiscal year 2008, the beginning of the recession, through the current fiscal year 2013 budget. The constant dollar decrease for this period is 24.8%, nearly one-quarter of fiscal year 2008 levels. The effect on constant dollar State Appropriation per Full-Time Equivalent (FTE) student has been even more dramatic during this period; a decrease of 31.5%.

The 2012-14 biennial budget passed by the 2012 General Assembly in May 2012 reflected a net 6.4% reduction, or $9.7 million, in state support for the University in fiscal year 2013. This reduction marks the fourth base budget cut for the University since fiscal year 2008. There have also been three mid-year budget reductions during this time frame.

The reduced state funding continues to impact daily operations. The University hasn't received maintenance and operation funding for new buildings in several years; $6.9 million in maintenance & operation funding was requested from the state for fiscal year 2013, but there was no funding included in the final budget of the Commonwealth. The University has been unable to fund a permanent salary increase in three of the past five fiscal years.

As a result of the economy, the University is still experiencing sluggish returns on investment. However, available spending on many of the University's endowments has shown a slight increase for fiscal year 2013. This is primarily due to increased carryover funds from the prior fiscal year. Sustaining momentum in reaching The 2020 Plan goals is especially difficult in an austere budgetary climate. The University's ability to fiscally adapt in such a climate is attributable to a sustained and daily practice of resource stewardship, cost reductions, and efficiency efforts that span over a decade.

In fact, a large majority of the decline in state appropriation, in real and constant dollars, was absorbed centrally by the University. This was accomplished through hundreds of efficiency initiatives across an array of departments and activities. A sampling includes utilizing more energy efficient equipment and technology, negotiating better contracts, re-engineering redundant services, and even cleaning campus building windows every two years instead of every year.

In its quest for preeminence, the University cannot depend solely on state support to fund its strategic plan. The University will continue to seek out cost saving and revenue enhancement strategies to buttress and supplant traditional revenue and expense activities. Ideas will be thoroughly reviewed and scrutinized in a transparent and inclusive process. The University will only review ideas that ensure that the quality of its educational, research, and public service mission are maintained and enhanced. Most importantly, the University is on track, and will stay on track to meet its House Bill 1 mandate.

The tangible expression of the University's plan to diversify revenue streams and lessen the effects of uncertain business cycles may be found in the business model entitled, Business Plan 2020. This plan was developed by the University's leadership and various constituencies. It is intended to complement the broader vision set forth by the 2020 Plan with the intent of creating the underpinning financial structure necessary for a successful implementation. An important outcome of Business Plan

2020 was the ability of leadership to synthesize data and also provide an impetus in developing a fiscal strategy to meet future challenges. President Ramsey built upon the 2020 Plan and Business Plan 2020 in creating a cogent seven-point business strategy to guide the University through the tough and uncertain fiscal environment.

The seven-strategies are:

- Continuing re-engineering of processes and expense management
- Aggressively improving balance sheet management, with an emphasis on converting underperforming assets
- Increasing contract research and commercialization income
- Creating private sector partnerships
- Enhanced fundraising
- Being creative in expanding the research mission through innovative financing tools like the tax increment financing plan
- Increasing clinical income to support education and research

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 Assets
June 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 110,330	$ 119,909
Deposit with bond trustee and escrow agent	12,756	17,027
Short-term investments	2,283	3,842
Loans, accounts and contributions receivable, net	52,696	57,725
Due from University of Louisville Foundation, Inc.	9,129	13,194
Inventories	1,154	1,208
Other assets	7,662	8,057
Total current assets	196,010	220,962
Noncurrent Assets		
Restricted cash and cash equivalents	66,131	52,952
Deposit with bond trustee	6,256	4,572
Loans, accounts and contributions receivable, net	33,476	39,010
Due from University of Louisville Foundation, Inc.	8,348	8,318
Investments held with University of Louisville Foundation, Inc.	36,779	36,878
Other long-term investments	23,184	25,376
Other long-term assets	2,219	2,418
Deferred outflows	552	-
Capital assets, net	880,482	882,447
Total noncurrent assets	1,057,427	1,051,971
Total assets	1,253,437	1,272,933
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	76,205	67,875
Deferred compensation and wages payable	1,062	3,829
Advances	51,835	54,754
Note payable to University of Louisville Foundation, Inc.	200	305
Bonds and notes payable	24,096	23,289
Total current liabilities	153,398	150,052
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	1,200	1,400
Deferred compensation and wages payable	8,038	7,718
Deposits	811	738
Advances	5,271	5,266
Amounts due to federal government for student loan programs	16,849	16,891
Other long-term liabilities	20,343	19,196
Deferred inflows	552	-
Bonds and notes payable	279,151	266,854
Total noncurrent liabilities	332,531	318,379
Total liabilities	485,929	468,431
NET ASSETS		
Invested in capital assets, net of related debt	610,298	617,086
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,421	1,535
Expendable		
Scholarships and fellowships	833	1,328
Research	4,782	4,268
Instruction	1,728	1,327
Public service	198	123
Academic support	167	163
Institutional support	10,872	13,946
Loans	2,650	2,621
Capital projects	34,924	26,222
Debt service	32,574	39,526
Unrestricted	67,061	96,357
Total net assets	$ 767,508	$ 804,502

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Financial Position
June 30, 2012 and 2011
(In Thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 9,643	$ 3,543
Accounts, notes, and accrued interest receivable	2,868	2,051
Loans receivable from the University of Louisville Athletic Association, Inc.	1,716	2,021
Prepaid expenses and other	1,247	1,289
Contributions receivable	29,173	36,061
Investments	736,432	771,088
Funds held in trust by others	43,690	45,141
Restricted investments	4,925	5,275
Other assets	996	435
Capital assets, net	132,866	119,585
Total assets	$ 963,556	$ 986,489
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 4,324	$ 4,464
Funds held in trust for others	46,399	47,359
Due to University of Louisville	17,477	21,512
Other	20,972	19,033
Bonds and notes payable	91,254	83,975
Total liabilities	180,426	176,343
Net assets:		
Unrestricted:		
Unrestricted - designated	141,214	159,163
Unrestricted - undesignated	22,938	13,359
Total unrestricted	164,152	172,522
Temporarily restricted	225,418	250,940
Permanently restricted	393,560	386,684
Total net assets	783,130	810,146
Total liabilities and net assets	$ 963,556	$ 986,489

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 Assets
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $65,476 in 2012 and $60,655 in 2011	$ 182,902	$ 173,275
Clinical services and practice plan	178,232	195,678
Federal grants and contracts	85,837	96,475
State and local grants and contracts	12,207	9,138
Nongovernmental grants and contracts	11,778	8,122
Sales and services of educational departments	3,983	6,577
Facilities and administrative cost recoveries	26,899	27,582
Auxiliary enterprises, net of discount of $1,506 in 2012 and $1,644 in 2011	11,067	11,137
Intercollegiate athletics	42,264	44,024
Other operating revenues	3,963	3,525
Total operating revenues	559,132	575,533
OPERATING EXPENSES		
Instruction	253,688	246,909
Research	129,953	129,717
Public service	88,215	79,533
Academic support	63,210	58,570
Student services	26,130	24,488
Institutional support	44,923	45,615
Operation and maintenance of plant	48,835	52,006
Scholarships and fellowships	30,476	30,666
Auxiliary enterprises	8,259	7,505
Intercollegiate athletics	60,976	56,449
Depreciation and amortization	62,575	47,427
Total operating expenses	817,240	778,885
Operating loss	(258,108)	(203,352)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	156,114	153,985
Gifts	28,780	29,424
Nonexchange grants and contracts	40,898	48,651
Investment income	5,872	4,075
Realized and unrealized (loss)/gain on investments	(2,567)	4,612
Interest on capital asset-related debt	(11,956)	(10,233)
Other nonoperating (expenses)/revenues	(4,411)	1,706
Net nonoperating revenues	212,730	232,220
(Loss)/income before other revenues, expenses, gains and losses	(45,378)	28,868
Capital gifts	1,761	2,538
Net assets transferred from University of Louisville Foundation, Inc.	6,623	749
Total other revenues	8,384	3,287
(Decrease)/increase in net assets	(36,994)	32,155
NET ASSETS		
Net assets-beginning of year	804,502	772,347
Net assets-end of year	$ 767,508	$ 804,502

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2012 and 2011
(In Thousands)

	Unrestricted		Temporarily restricted		Permanently restricted		Totals	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
REVENUES, GAINS AND OTHER SUPPORT								
Gifts	$ 39,473	$ 25,042	$ 7,068	$ 1,892	$ 9,192	$ 12,346	$ 55,733	$ 39,280
Research Challenge Trust Fund	-	-	-	-	-	500	-	500
Investment income	1,334	1,012	16	-	-	-	1,350	1,012
Endowment income	1,608	38	6,825	7,487	-	-	8,433	7,525
Net realized and unrealized gain/(loss) on investments	875	35,316	(5,346)	89,245	(1,451)	6,708	(5,922)	131,269
Residence hall income	6,773	6,702	-	-	-	-	6,773	6,702
Real estate income	2,151	1,851	-	-	-	-	2,151	1,851
Actuarial gain/(loss) on annuity and trust obligations	-	-	33	(1,489)	-	-	33	(1,489)
Other revenues	3,014	3,517	-	-	-	-	3,014	3,517
Net assets released from restrictions:								
Satisfaction of program restrictions	33,812	24,483	(33,812)	(24,483)	-	-	-	-
Reclassifications	1,171	(1,045)	(306)	(1,402)	(865)	2,447	-	-
Total revenues, gains and other support	90,211	96,916	(25,522)	71,250	6,876	22,001	71,565	190,167
EXPENSES								
Contributions to various University of Louisville departments	6,623	749	-	-	-	-	6,623	749
Payments on behalf of the University of Louisville for:								
Instruction	4,891	4,560	-	-	-	-	4,891	4,560
Research	15,840	16,725	-	-	-	-	15,840	16,725
Public service	4,541	3,665	-	-	-	-	4,541	3,665
Academic support	14,302	12,575	-	-	-	-	14,302	12,575
Student services	350	214	-	-	-	-	350	214
Institutional support	14,323	17,128	-	-	-	-	14,323	17,128
Operation and maintenance of plant	4,150	3,190	-	-	-	-	4,150	3,190
Scholarships/fellowships	8,674	8,439	-	-	-	-	8,674	8,439
Interest expense	3,770	3,834	-	-	-	-	3,770	3,834
Residence hall operations, including depreciation	5,171	5,252	-	-	-	-	5,171	5,252
Real estate operations, including depreciation	6,291	6,014	-	-	-	-	6,291	6,014
General and administrative, including fundraising	9,655	9,347	-	-	-	-	9,655	9,347
Total expenses	98,581	91,692	-	-	-	-	98,581	91,692
Net change in assets from operations	(8,370)	5,224	(25,522)	71,250	6,876	22,001	(27,016)	98,475
Change in accounting principle	-	(135,677)	-	134,526	-	1,151	-	-
Change in net assets	(8,370)	(130,453)	(25,522)	205,776	6,876	23,152	(27,016)	98,475
Net assets at beginning of year	172,522	302,975	250,940	45,164	386,684	363,532	810,146	711,671
Net assets at end of year	$ 164,152	$ 172,522	$ 225,418	$ 250,940	$ 393,560	$ 386,684	$ 783,130	$ 810,146

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, 2012 and 2011
(In Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 182,032	$ 171,811
Clinical services and practice plan	183,363	189,174
Grants and contracts	107,025	113,843
Sales and services of educational departments	4,049	6,606
Payments to suppliers	(114,582)	(137,750)
Payments for utilities	(20,079)	(21,165)
Payments to employees	(410,068)	(405,109)
Payments for benefits	(105,071)	(101,239)
Payments for scholarships and fellowships	(22,268)	(22,583)
Loans issued to students and employees	319	607
Auxiliary enterprises	10,987	11,051
Facilities and administrative cost recoveries	26,899	27,582
Intercollegiate athletics, net	(26,221)	(19,942)
Other receipts	3,525	3,118
Net cash used by operating activities	(180,090)	(183,996)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	159,034	151,065
Gifts	29,345	36,516
Nonexchange grants and contracts	41,073	48,782
Transfers from University of Louisville Foundation, Inc.	6,541	685
Other noncapital financing activities	(4,134)	1,715
Net cash provided by noncapital financing activities	231,859	238,763
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital gifts received	5,150	7,391
Purchases of capital assets	(61,789)	(85,906)
Proceeds from issuance of bonds and notes payables	55,515	25,832
Payments of issuance costs	(418)	(484)
Payment on note payable to University of Louisville Foundation, Inc.	(305)	(500)
Principal paid on bonds and notes payable	(43,238)	(24,736)
Interest paid on bonds and notes payable	(11,692)	(10,248)
Deposits with bond trustee and escrow agent	2,635	19,279
Other capital financing activities - loss on defeasance of bonds	(714)	-
Net cash used by capital and related financing activities	(54,856)	(69,372)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	17,726	27,741
Purchase of investments	(16,816)	(28,567)
Interest on investments	5,777	4,287
Net cash provided by investing activities	6,687	3,461
Net increase/(decrease) in cash and cash equivalents	3,600	(11,144)
Cash and cash equivalents - beginning of year	172,861	184,005
Cash and cash equivalents - end of year	$ 176,461	$ 172,861
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (258,108)	$ (203,352)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	62,575	47,427
Loss on equipment disposals	217	103
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	4,729	(6,834)
Inventories	54	43
Other assets	395	(878)
Accounts payable and accrued liabilities	11,096	(1,885)
Advances	(3,994)	(3,123)
Deposits	73	86
Due from University of Louisville Foundation, Inc.	4,035	(8,888)
Deferred compensation and wages payable	(2,195)	179
Other long-term liabilities	1,033	(6,874)
Net cash used by operating activities	$ (180,090)	$ (183,996)
Non cash transactions:		
Transfer of equipment from the University of Louisville Foundation, Inc.	$ 82	$ 66
Capital lease additions	$ 2,156	$ 5,169
Capital asset additions in accounts payable	$ 4,549	$ 7,857
Gifts of capital assets	$ 45	$ 167
Proceeds from sale of capital assets in accounts receivable	$ 149	$ -

See notes to the financial statements

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

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

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

a. Basis of Presentation

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

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

Under the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University reports the University of Louisville Foundation, Inc. and Affiliates (the Foundation) as a discretely presented component unit.

The financial statement presentation required by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the University has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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/finst

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, 2012 and 2011, deposits with bond trustee consist of cash and investments in governmental securities of $6.9 million and $7.6 million, respectively, for the Stadium Project Revenue Bonds, and $11.5 million and $13.9 million for the Educational Building Bonds, and Housing System Revenue Bonds. As of June 30, 2012 and 2011, amounts held with escrow agent total $0.6 million and $0.1 million, respectively, relating to capital leases.

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 market value. Market value is determined using quoted market prices. Real estate investments are stated at cost on the date of acquisition. Repurchase agreements and certificates of deposit are stated at cost plus accrued interest, which approximates market. 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 that the Foundation’s investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

The market risk inherent in certain of the Foundation’s investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities.

The 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, 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 $0.5 million at June 30, 2012 and 2011.

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 market 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 fair market value on the date of the gift.

During the year ended June 30, 2012, the University changed the remaining estimated lives of certain research buildings to more accurately reflect the rate of depreciation, resulting in additional depreciation expense of $12.3 million.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was (in thousands):

	2012	**2011**
Total interest expense incurred on borrowings for project	$ 2,659	$ 6,575
Interest income from investment of proceeds of borrowings for project	(1,483)	(1,786)
Net interest cost on borrowings for project	$ 1,176	$ 4,789
Interest capitalized	$ 1,176	$ 1,504
Interest charged to expense	11,956	10,233
Total interest incurred	$ 13,132	$ 11,737

Projects with interest subject to capitalization were completed during the fiscal year ended June 30, 2011; therefore, only a portion of the net interest cost on borrowings was capitalized.

i. Deferred Compensation Expenses

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

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

In the case of cost reimbursement, the 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.

k. 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 assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

l. Net Bond Discount

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

m. Net Assets

Net assets of the University are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net assets are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the University, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

n. 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.

o. Student Tuition and Fees

Student tuition and fees are presented net of scholarship allowances in the statements of revenues, expenses and changes in net assets. 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.

p. 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 includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

q. Government 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.

r. 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.

s. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

t. Recent Accounting Pronouncements

GASB has issued certain statements which are applicable to the University for fiscal years ending after June 30, 2012. The University does not expect the adoption of these statements to have a material effect on its financial statements.

u. Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. These reclassifications had no effect on the change in net assets.

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 assets. The following sections discuss the risks related to deposits and investments held by the University.

a. Summary of Carrying Values

The fair market value of deposits and investments as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	**2011**
Deposits	$ 176,461	$ 172,861
Investments		
Variable rate demand notes	7,390	8,834
U.S. treasury obligations	14,783	6,713
U.S. agencies obligations	5,003	11,014
Other government obligations	9,786	4,819
Guaranteed investment contracts	-	10,657
Repurchase agreement	4,229	4,229
Investments held with the Foundation	36,779	36,878
Certificates of deposit	699	1,900
Annuities	296	296
Common stock	4	4
Building	2,289	2,351
	$ 257,719	$ 260,556

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

	2012	2011
Cash and cash equivalents	$ 110,330	$ 119,909
Deposit with bond trustee-current	12,756	17,027
Short-term investments	2,283	3,842
Restricted cash and cash equivalents	66,131	52,952
Deposit with bond trustee-noncurrent	6,256	4,572
Investments held with the Foundation	36,779	36,878
Other long-term investments	23,184	25,376
	$ 257,719	$ 260,556

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 (the 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 the Common Fund and 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, 2012 and 2011, the University had deposits subject to custodial credit risk as follows (in thousands):

June 30, 2012	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized		$ 10,222	$ 10,222
Collateralized with securities held by pledging financial institution		72	72
Collateralized with securities held by the Commonwealth in the Commonwealth's name	$ 127,158	-	127,158
Total	$ 127,158	$ 10,294	$ 137,452

June 30, 2011	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized		$ 2,696	$ 2,696
Collateralized with securities held by pledging financial institution		1,514	1,514
Collateralized with securities held by the Commonwealth in the Commonwealth's name	$ 132,889	-	132,889
Total	$ 132,889	$ 4,210	$ 137,099

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 a repurchase agreement 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 maturity under this agreement is March 1, 2028.

As of June 30, 2012 and 2011, the University had investments subject to interest rate risk as follows (in thousands):

		Maturities in years			
June 30, 2012	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. treasury obligations	$ 14,783	$ 13,273	$ 80	$ 1,430	
U.S. agencies obligations	5,003	-	5,003	-	
Other government obligations	9,786	2,183	7,603	-	
Repurchase agreement	4,229	-	2,368	450	$ 1,411
Certificates of deposit	699	200	499	-	-
	$ 34,500	$ 15,656	$ 15,553	$ 1,880	$ 1,411

		Maturities in years			
June 30, 2011	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. treasury obligations	$ 6,713	$ 4,903	$ 380	$ 1,430	
U.S. agencies obligations	11,014	-	11,014	-	
Other government obligations	4,819	2,652	2,167	-	
Guaranteed investment contracts	10,657	931	7,568	2	$ 2,156
Repurchase agreement	4,229	-	2,368	203	1,658
Certificates of deposit	1,900	1,900	-	-	-
	$ 39,332	$ 10,386	$ 23,497	$ 1,635	$ 3,814

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 rating service and by each rating service rating said credit. 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, 2012 and 2011 the University had the following deposits and investments exposed to credit risk as follows (in thousands):

	Credit Rating				
June 30, 2012	A1+ / P1	A1 / P1	A3	Not Rated	Total
Variable rate demand notes	$ -	$ 7,390			$ 7,390
Annuities	-	-	$ 296		296
Common stock	-	-	-	$ 4	4
Investment held with the Foundation	-	-	-	36,779	36,779
	$ -	$ 7,390	$ 296	$ 36,783	$ 44,469

	Credit Rating				
June 30, 2011	A1+ / P1	A1 / P1	A3	Not Rated	Total
Variable rate demand notes	$ 350	$ 8,484			$ 8,834
Annuities	-	-	$ 296		296
Common stock	-	-	-	$ 4	4
Investment held with the Foundation	-	-	-	36,878	36,878
	$ 350	$ 8,484	$ 296	$ 36,882	$ 46,012

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, 2012 and 2011, 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, 2012 and 2011 was as follows:

	2012	2011
Investment in partnerships	56%	54%
Marketable alternatives	19%	19%
Preferred and common stock	11%	12%
Mutual funds	10%	11%
Corporate bonds	3%	3%
Certificates of deposit	1%	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, 2012 and 2011.

3. Loans, Accounts and Contributions Receivable, net

Loans, accounts and contributions receivable, net as of June 30, 2012 and 2011 are as follows (in thousands):

2012	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 30,133	$ (4,607)	$ 25,526
Patient care	16,361	(5,305)	11,056
Contributions receivable	23,766	(1,595)	22,171
UMC affiliation agreement	5,500	-	5,500
Sponsored agreements	18,608	(2,588)	16,020
Rent from UMC	3,000	-	3,000
Trade receivables	2,910	-	2,910
Other	3,709	(2,522)	1,187
Total	$ 103,987	$ (16,617)	87,370
Less discount			(1,198)
Current portion			52,696
Noncurrent portion			$ 33,476

2011			
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 30,203	$ (4,626)	$ 25,577
Patient care	12,600	(2,537)	10,063
Contributions receivable	27,490	(1,810)	25,680
UMC affiliation agreement	10,875	-	10,875
Sponsored agreements	19,930	(2,301)	17,629
Rent from UMC	3,750	-	3,750
State appropriations	2,920	-	2,920
Trade receivables	710	-	710
Other	3,873	(2,520)	1,353
Total	$ 112,351	$ (13,794)	98,557
Less discount			(1,822)
Current portion			57,725
Noncurrent portion			$ 39,010

Contributions receivable consist primarily of charitable gifts totaling $23.8 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 5.4% as of June 30, 2012.

Contributions receivable as of June 30, 2012 and 2011 are due to be received as follows (in thousands):

	2012	2011
Less than one year	$ 4,756	$ 3,914
One to three years	7,348	6,543
Greater than three years	11,662	17,033
Subtotal	23,766	27,490
Less discount	(1,198)	(1,822)
Less allowance	(1,595)	(1,810)
Net contributions receivable	$ 20,973	$ 23,858

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.

4. <u>Due from the Foundation</u>

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 assets. 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.

5. Capital Assets, Net

Capital assets as of June 30, 2012 and 2011 are as follows and on the following page (in thousands):

	2012				
	Beginning Balance	**Additions**	**Retire-ments**	**Transfers**	**Ending Balance**
Cost - Non depreciable					
Land	$ 45,709				$ 45,709
Rare books	41,484				41,484
Construction in progress	48,617	$ 36,870		$ (46,946)	38,541
Subtotal	135,810	36,870		(46,946)	125,734
Cost - Depreciable					
Buildings	958,980	1,517		41,907	1,002,404
Infrastructure	10,229	-		79	10,308
Land improvements	8,554	356		4,960	13,870
Equipment	187,511	13,221	$ (7,605)	85	193,212
Leasehold improvements	2,001	-	-	-	2,001
Library materials	166,299	8,718	-	-	175,017
Subtotal	1,333,574	23,812	(7,605)	47,031	1,396,812
Total capital assets-cost	1,469,384	60,682	(7,605)	85	1,522,546
Accumulated depreciation					
Buildings	318,972	36,535	-	-	355,507
Infrastructure	2,485	171	-	-	2,656
Land improvements	1,359	287	-	-	1,646
Equipment	138,582	16,709	(7,388)	3	147,906
Leasehold improvements	845	409	-	-	1,254
Library materials	124,694	8,401	-	-	133,095
Total accumulated depr.	586,937	62,512	(7,388)	3	642,064
Capital assets, net	$ 882,447	$ (1,830)	$ (217)	$ 82	$ 880,482

	2011				
	Beginning Balance	**Additions**	**Retire-ments**	**Transfers**	**Ending Balance**
Cost - Non depreciable					
Land	$ 43,212	$ 2,497			$ 45,709
Rare books	41,484	-			41,484
Construction in progress	114,231	32,237		$ (97,851)	48,617
Subtotal	198,927	34,734		(97,851)	135,810
Cost - Depreciable					
Buildings	849,328	13,082		96,570	958,980
Infrastructure	10,229	-		-	10,229
Land improvements	7,654	115		785	8,554
Equipment	168,533	23,794	$ (4,677)	(139)	187,511
Leasehold improvements	1,299	-	-	702	2,001
Library materials	157,045	9,254	-	-	166,299
Subtotal	1,194,088	46,245	(4,677)	97,918	1,333,574
Total capital assets-cost	1,393,015	80,979	(4,677)	67	1,469,384
Accumulated depreciation					
Buildings	297,170	21,802	-	-	318,972
Infrastructure	2,314	171	-	-	2,485
Land improvements	1,146	213	-	-	1,359
Equipment	126,550	16,605	(4,574)	1	138,582
Leasehold improvements	434	411	-	-	845
Library materials	116,530	8,164	-	-	124,694
Total accumulated depr.	544,144	47,366	(4,574)	1	586,937
Capital assets, net	$ 848,871	$ 33,613	$ (103)	$ 66	$ 882,447

During the fiscal years ended June 30, 2012 and 2011, the University received capital assets from the Foundation with a net value of $82 thousand and $66 thousand, respectively.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Salaries and benefits	$ 42,911	$ 37,265
Payroll taxes	12,625	11,448
Construction	4,771	8,089
Accrued interest	4,084	3,885
Other	11,814	7,188
	$ 76,205	$ 67,875

7. Loan 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. During each of the years ended June 30, 2012 and 2011, the Association repaid approximately $0.3 million and $0.5 million, respectively. The outstanding balance was approximately $1.4 million and $1.7 million as of June 30, 2012 and 2011, respectively, of which $0.2 million and $0.3 million was shown as current as of June 30, 2012 and June 30, 2011, respectively.

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, 2012 and 2011.

8. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2012 and 2011 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2012	2011
Consolidated Educational Building Revenue Bonds:				
Series M of 2003	1.5% to 3.6%	2016	$ 13,450	$ 21,210
Series N of 2004			-	14,475
Series O of 2004			-	5,725
Series P of 2005	3.4% to 4.0%	2025	3,215	3,405
Housing Systems Revenue Bonds:				
Series E of 2003	3.4% to 3.5%	2014	690	1,020
Series F of 2004	4.0% to 4.2%	2015	2,730	3,575
General Receipts Bonds:				
Series A of 2007	4.0%	2028	35,220	36,765
Series A of 2008	4.0% to 4.5%	2029	77,295	80,365
Series A of 2010	1.1% to 5.8%	2028	4,058	4,058
Series B of 2010	5.50%	2028	20,942	20,942
Series A of 2011	3.0% to 5.0%	2032	33,790	-
Series A of 2012	2.5% to 5.0%	2023	14,560	-
Metro Government Revenue Bonds:				
Series 2008 A	3.3% to 5.0%	2018	29,215	33,475
Series 2008 B	3.0% to 4.8%	2028	36,545	38,170
Note payable	4.8%	2017	1,794	2,102
Energy lease	4.8%	2023	18,385	19,563
Capital lease obligations	1.4% to 4.7%	2018	6,653	5,623
Total long-term debt			298,542	290,473
Net unamortized premium/(discount)			4,705	(330)
Long-term debt, net			$ 303,247	$ 290,143

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

	2012					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 263,185	$ 48,350	$ (39,825)	$ 271,710	$ 20,723	$ 250,987
Note payable	2,102	-	(308)	1,794	325	1,469
Energy lease	19,563	-	(1,178)	18,385	1,235	17,150
Capital leases	5,623	2,956	(1,926)	6,653	1,336	5,317
Total	290,473	51,306	(43,237)	298,542	23,619	274,923
Less unamortized net (discount)/premium	(330)	5,146	(111)	4,705	477	4,228
Net bonds payable	$ 290,143	$ 56,452	$ (43,348)	$ 303,247	$ 24,096	$ 279,151

	2011					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 258,760	$ 25,000	$ (20,575)	$ 263,185	$ 20,990	$ 242,195
Note payable	2,400	-	(298)	2,102	312	1,790
Energy lease	20,440	-	(877)	19,563	1,178	18,385
Capital leases	2,609	6,000	(2,986)	5,623	766	4,857
Total	284,209	31,000	(24,736)	290,473	23,246	267,227
Less unamortized net discount	(81)	(182)	(67)	(330)	43	(373)
Net bonds payable	$ 284,128	$ 30,818	$ (24,803)	$ 290,143	$ 23,289	$ 266,854

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
2013	$ 23,619	$ 12,405	$ 36,024
2014	24,309	11,780	36,089
2015	22,259	11,010	33,269
2016	20,960	10,244	31,204
2017	19,256	9,488	28,744
2018 - 2022	79,871	37,106	116,977
2023 - 2027	71,167	20,985	92,152
2028 - 2032	37,101	2,871	39,972
Total	$ 298,542	$ 115,889	$ 414,431

The University has capitalized leased equipment with a net book value of $6.5 million and $7.2 million as of June 30, 2012 and 2011, respectively.

Bonds are collateralized by mortgages on certain University properties and the pledge of certain building revenues, tuition and fees for the Consolidated Educational Building Revenue Bonds and auxiliary revenues for the Housing System Revenue Bonds. General Receipts Bonds are collateralized by the operating and nonoperating income of the University excluding income which as a condition of the receipt is not available for payment of debt service charges. As of June 30, 2012 and 2011, investments at current market value totaling approximately $19.0 million and $21.6 million, respectively, for retirement of indebtedness and renewal and replacement funds have been deposited with the bond trustees and escrow agents as required under the various bond indentures and capital lease agreements.

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 are being 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 on or after May 1, 2013. The prior bonds are considered legally defeased and have been removed from the financial statements of the University. As of June 30, 2012, the outstanding balance was $13.5 million on the Series N bond and $5.3 million on the Series O bond. Final maturity of the 2012 bonds is March 1, 2023.

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, 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, net of the subsidy from the Build America Bonds Act, of 1.8%. 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.

9. Derivative Financial Instruments

   a. Summary

      The Association has entered into a forward delivery purchase agreement (the Forward Delivery Agreement). 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 are 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 date of the Forward Delivery Agreement is August 5, 2008, with a termination date of March 1, 2018. The scheduled reserve amount varies throughout the term and was $1.8 million as of June 30, 2012. The guaranteed rate is 6.4% and the fair market value of the Forward Delivery Agreement is $552 thousand as of June 30, 2012.

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. The fair value of the Forward Delivery Agreement is classified as deferred outflows, a noncurrent asset on the statements of net assets. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows, a noncurrent liability.

b. Credit Risk

Credit risk is the risk that a 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.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair values of the Association's financial instruments or cash flows. The fair market value of the Forward Delivery Agreement is 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 on the Forward Delivery Agreement.

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.

10. Other Liabilities

Other liabilities of the University consisted of the following at June 30, 2012 and 2011 (in thousands):

	2012					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316			$ 316		$ 316
Loan payable to University of Louisville Foundation, Inc.	1,705		$ (305)	1,400	$ 200	1,200
Deferred compensation and wages payable	11,547	$ 979	(3,426)	9,100	1,062	8,038
Deposits	738	103	(30)	811	-	811
Advances	60,020	52,597	(55,511)	57,106	51,835	5,271
Amounts due federal government for student loan program	16,891	-	(42)	16,849	-	16,849
Other long-term liabilities	22,769	3,335	(1,882)	24,222	3,879	20,343
Deferred inflows	-	552	-	552	-	552
Total	$ 113,986	$ 57,566	$ (61,196)	$110,356	$ 56,976	$ 53,380

	2011					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316			$ 316		$ 316
Loan payable to University of Louisville Foundation, Inc.	2,205		$ (500)	1,705	$ 305	1,400
Deferred compensation and wages payable	11,623	$ 1,622	(1,698)	11,547	3,829	7,718
Deposits	652	148	(62)	738	-	738
Advances	58,200	53,861	(52,041)	60,020	54,754	5,266
Amounts due federal government for student loan program	16,924	-	(33)	16,891	-	16,891
Other long-term liabilities	31,879	(6,188)	(2,922)	22,769	3,573	19,196
Total	$ 121,799	$ 49,443	$ (57,256)	$113,986	$ 62,461	$ 51,525

Other long-term liabilities as of June 30, 2012 and 2011, include other postemployment benefits, as discussed in Note 15 – Postemployment Healthcare Benefits, and other contractual payments. The current portion is included in accounts payable and accrued liabilities in the statements of net assets as of June 30, 2012 and 2011.

11. Component Units

a. 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 are 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, 2012 and 2011 were $67.1 million and $66.5 million, respectively. Complete financial statements for the Foundation can be obtained from the Controller’s Office at University of Louisville, Louisville, KY 40292 or at the website:

http://louisville.edu/finance/controller/finst

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. The following affiliated entities are included in the consolidated financial statements of the Foundation.

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

UHI (originally named Cardinal Real Estate, Inc.) is a non-stock, non-profit corporation created in September 2007 for the benefit of and to carry out the purposes of ULF. UHI provides oversight and management support to various affiliated entities. UHI is affiliated with ULF through certain common management and directors.

ULDC is a limited liability company formed in September 2007, whose sole member is ULF. Its purpose is to develop and manage the real estate operations of ULF at the Shelby Campus of the University. UHI is the Manager of ULDC. In October 2010, ULDC became a 51% owner of Campus One, LLC (Campus One). This investment is recorded on the equity method, as ULDC is not considered the primary beneficiary.

Nucleus Healthcare, LLC was formed in February 2008 and subsequently renamed Nucleus: Kentucky’s Life Sciences and Innovation Center, LLC (Nucleus). Its purpose is to integrate University resources, including life sciences, with those of the region, specifically as it relates to building and maintaining a research park in downtown Louisville. ULF is the sole member of Nucleus and UHI is the Manager.

MetaCyte is a limited liability company formed in June 2002. Its purpose is to identify and support commercially promising health science discoveries in the region. ULF is the sole member of MetaCyte and UHI is the Manager.

MetaCyte Equity is a limited liability company formed in February 2006. Its purpose is to hold the equity shares obtained by MetaCyte through development with start-up corporations.

As of June 30, 2012 no equities have been transferred and MetaCyte Equity has had no activity since inception.

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

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

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

Minerva is a limited liability company formed in September 2011, whose sole member is ULF. Its purpose is to serve as a vehicle for the efficient administration of various deferred compensation plans, agreements, and understandings. UHI is the Manager of Minerva.

1. Endowments

   The Foundation's endowment consists of approximately 1,350 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

   The Foundation's board of directors has interpreted the Uniform 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, 2012 and 2011 was (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 32	$ 193,071	$ 393,560	$ 586,663
Board-designated endowment funds	117,238	-	-	117,238
	$ 117,270	$ 193,071	$ 393,560	$ 703,901

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 36	$ 217,604	$ 386,684	$ 604,324
Board-designated endowment funds	144,122	-	-	144,122
	$ 144,158	$ 217,604	$ 386,684	$ 748,446

Changes in endowment net assets for the years ended June 30, 2012 and 2011 were (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 144,158	$ 217,604	$ 386,684	$ 748,446
Investment return:				
Investment and endowment income	2,727	6,818	-	9,545
Net appreciation	(3,898)	(7,660)	(1,451)	(13,009)
Total investment return	(1,171)	(842)	(1,451)	(3,464)
Contributions	211	1,624	9,192	11,027
Appropriation of endowment assets for expenditures	(25,763)	(26,332)	-	(52,095)
Other changes	(165)	1,017	(865)	(13)
Endowment net assets, end of year	$ 117,270	$ 193,071	$ 393,560	$ 703,901

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 269,861	$ 11,238	$ 363,532	$ 644,631
Investment return				
Investment and endowment income	38	8,132	-	8,170
Net depreciation	35,259	86,241	6,708	128,208
Total investment return	35,297	94,373	6,708	136,378
Contributions	621	1,533	12,846	15,000
Appropriation of endowment assets for expenditures	(24,412)	(23,249)	-	(47,661)
Other changes	(1,532)	(817)	2,447	98
Effect of adoption of ASC Topic 958-205-05	(135,677)	134,526	1,151	-
Endowment net assets, end of year	$ 144,158	$ 217,604	$ 386,684	$ 748,446

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2012 and 2011 consisted of (in thousands):

	2012	2011
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UMIFA	$ 393,560	$ 386,684
Termporarily restricted net assets - term endowment funds	$ 10,899	$ 11,031

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 GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to $6.1 million and $1.2 million at June 30, 2012 and 2011, 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 fair value over the prior three years through the calendar year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation 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, 2012, the Foundation Board of Directors approved a one-year modification to the spending policy, by eliminating the worst of the three years from the average fair value calculation. 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 -0.8% and 20.8% in 2012 and 2011, respectively.

The amount available for spending under the policy was approximately $35.4 million and $33.1 million for the years ended June 30, 2012 and 2011, respectively, of which approximately $32.1 million and $30.1 million was actually expended for the years then ended.

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

2. Investments and Investment Income

Investments as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Investment in partnerships and funds of funds	$ 414,418	$ 419,276
Mutual funds	68,273	77,198
Marketable alternatives	138,108	149,842
Preferred and common stock	78,064	89,165
Corporate bonds	23,636	23,486
U.S. government securities	181	165
Equity method investments	4,795	1,035
Certificate of deposit	7,000	8,900
Land and buildings	1,352	1,416
Annuities	605	605
Total investments	$ 736,432	$ 771,088

Restricted investments are restricted by bond indenture for payment of debt service, and repairs and replacement. Restricted investments as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Money market mutual funds	$ 2,289	$ 2,631
U.S. agency obligations	1,681	1,689
Guaranteed investment contract	955	955
	$ 4,925	$ 5,275

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

	2012	2011
Interest and dividend income	$ 9,783	$ 8,537
Net realized and unrealized (losses)/gains on investments reported at fair value	(5,683)	131,332
Net realized losses on other investments	(239)	(63)
	$ 3,861	$ 139,806

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

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

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

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

a. Alternative Investments

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

	2012			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Fixed income funds (A)	$ 35,591		Various from once monthly day to illiquid	Various from 10 to 30 days, if allowable
U.S. equity funds (B)	71,810		Various from semi-monthly to quarterly	Various from 5 to 60 days
International equities funds (C)	141,288		Various from any valuation day to quarterly	Various from 10 to 60 days
Equity long/short hedge funds (D)	66,212		Various from quarterly to illiquid	Various from 30 to 60 days, if allowable
Multi-strategy hedge funds (E)	66,511		Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Natural resources funds (F)	49,758	$ 3,240	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	38,213	2,475	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	55,842	31,158	Illiquid	N/A

	2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income funds (A)	$ 24,926		Various from any valuation day to monthly	Various from 10 to 30 days
U.S. equity funds (B)	67,146		Various from semi-monthly to quarterly	Various from 5 to 60 days
International equities funds (C)	168,463		Various from any valuation day to quarterly	Various from 10 to 60 days
Equity long/short hedge funds (D)	80,431		Various from quarterly to annually	Various from 30 to 60 days
Multi-strategy hedge funds (E)	62,652		Various from quarterly to once every 36 months	Various from 45 to 90 days
Natural resources funds (F)	69,321	$ 4,937	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	52,896	2,743	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	44,318	30,480	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. Amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days. The remaining $1.0 million is illiquid.

B. This category includes two investments in U.S. equities, with one focused on large cap and the other on small- and mid-cap. All securities are traded on U.S. exchanges. The large cap investment, valued at $62.4 million on June 30, 2012, is redeemable at calendar quarter end with 60 days prior notice. The other investment is redeemable twice per month with 5 days prior notice.

C. This category includes investments in international equities in emerging and developed markets across all capitalization classes. Approximately 62% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 35% of the funds invested can be redeemed monthly with 15 to 30 days prior notice. The remaining investments are 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 appropriated by the respective manager. An investment representing 13% of the value of the investments in this category has a lockup period of 6 months as of June 30, 2012. Two other investments, totaling $3.5 million are illiquid investments. The remaining investments in this category can be redeemed at calendar year quarter ends with prior notification from 30 to 60 days.

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. An investment representing 17% of the value of this category can only be redeemed annually on the anniversary date, with prior notification of 45 days, due to agreements with the management of the funds. Two investments representing 35% of this category can be redeemed annually at June 30, with prior notification of 45 to 60 days. Another investment, with a market value of $0.8 million, is illiquid. The remaining funds can be redeemed monthly or at the calendar year quarter ends with notification of 15 to 65 days.

F. This category includes a multi-strategy natural resources fund of funds, private oil & gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals, 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 10% of the investments are private lock up funds with projected partnership maturities ranging from 2018 to 2020. The remaining investments can be redeemed daily with 10 to 90-day prior notification.

G. This category includes investments in distressed-securities, -real estate and -credit. As a class, these investments strive to find U.S. and non-U.S. financial assets, real estate, debt obligations and securities that are inefficiently priced as a result of business, financial, market or legal uncertainties. Investments will include publicly traded securities and private investments. Three of these funds, with a combined value of $7.7 million, can never be redeemed prior to partnership termination as specified in the limited partnership agreements. These funds have expected partnership maturities in 2012 and 2017. Distributions from each fund are made as the underlying investments of the funds are liquidated. One other fund, with a value of $4.4 million is available quarterly 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 $24.1 million is equally invested among 12 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2012 to 2027. 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, 2012 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2012 are $31.2 million, which is expected to be drawn over the next 5 years.

3. <u>Disclosures About Fair Value of Assets and Liabilities</u>

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

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

a. Money Market Mutual Funds

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

b. Investments

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

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

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

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, 2012 and 2011. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation the sole beneficiary of the majority of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

d. Restricted Investments

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011 (in thousands):

	2012			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market mutual funds	$ 678	$ 678		
Investments				
Preferred and common stock	78,064	75,960		$ 2,104
Corporate bonds	23,636	-	$ 23,636	-
Mutual funds	68,123	68,123	-	-
Investment in partnerships and funds of funds	414,079	-	230,084	183,995
U.S. government securities	181	-	181	-
Marketable alternatives	138,108	-	8,639	129,469
Funds held in trust by others	43,690	-	43,690	-
Restricted investments				
Money market mutual funds	2,289	2,289	-	-
U.S. agency obligations	1,681	-	1,681	-

	2011			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	$ 213	$ 213		
Investments				
Preferred and common stock	89,165	85,588		$ 3,577
Corporate bonds	23,486	-	$ 23,486	-
Mutual funds	77,098	77,098	-	-
Investment in partnerships and funds of funds	418,938	-	267,584	151,354
U.S. government securities	165	-	165	-
Marketable alternatives	149,842	-	8,587	141,255
Funds held in trust by others	45,141	-	45,141	-
Restricted investments				
Money market accounts	2,631	2,631	-	-
U.S. agency obligations	1,689	-	1,689	-

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, 2011	$ 151,354	$ 141,255	$ 3,577
Total realized and unrealized gains and losses	14,774	(3,771)	(1,473)
Purchases	38,813	7,000	-
Sales	(20,946)	(14,706)	-
Settlements	-	(309)	-
Balance, June 30, 2012	$ 183,995	$ 129,469	$ 2,104
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	$ 7,887	$ (3,719)	$ (1,473)

	Investment in partnerships and funds of funds	Marketable alternatives	Preferred and common stock
Balance, July 1, 2010	$ 125,909	$ 109,284	$ 1,525
Total realized and unrealized gains and losses	27,715	13,021	502
Purchases	8,351	22,749	$ 1,550
Sales	(10,621)	-	-
Settlements	-	(3,799)	-
Balance, June 30, 2011	$ 151,354	$ 141,255	$ 3,577
Total gains for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ 21,154	$ 13,021	$ 453

Realized and unrealized gains and losses included in change in net assets for the years ended June 30, 2012 and 2011, are reported in the consolidated statements of activities as follows (in thousands):

	2012	2011
Total gains	$ 9,530	$ 41,238
Change in unrealized gains or losses relating to assets still held at the consolidated statement of financial position date	$ 2,695	$ 34,628

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

Cash and Cash Equivalents:
The carrying amount approximates fair value.

Loan Receivable:
The carrying amount approximates fair value.

Notes Receivable:
Carrying amount is a reasonable estimate of fair value.

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

Restricted Cash:
The carrying amount approximates fair value.

Bonds and Notes Payable:
Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities. The carrying value of \$91.3 million and \$84.0 million as of June 30, 2012 and 2011, respectively, approximates fair value.

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

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

4. Bonds Payable

Bonds and notes payable consist of the following at June 30, 2012 and 2011 (in thousands):

	Description	Fiscal Year of Maturity	2012	2011
Series 2005A (non taxable)	Principal payments of $175 to $1,010 are due annually beginning 6/1/16 through maturity, and interest is due monthly at fixed rates from 4% to 5%.	Ranging from 2016 to 2035	$ 13,815	$ 13,815
Series 2005B (taxable)	Principal payments of $170 to $390 are due annually beginning 6/1/07 through maturity, and interest is due monthly at a fixed rate of 4.91%.	2016	1,190	1,440
Series 2009A (non taxable)	Principal payments of $370 to $900 are due annually beginning 10/01/10 through maturity, and interest is due semi-annually at fixed rates from 2% to 4.5%.	2033	13,015	13,355
Series 2010A (non taxable)	Principal payments of $785 to $2,815 are due annually beginning 10/1/10 through maturity, and interest is due semi-annually at a fixed rates from 2.0% to 4.4%	2030	20,475	21,255
Note Payable - AAF	Fixed rate of 5.99% with principal payment at end of note	2012	-	2,200
Note Payable - AAF	Fixed rate of 1.80% with principal payment at end of note	2012	-	5,992
Note Payable - AAF	Variable rate, 1.90% as of June 30, 2012, with principal payment at end of note	2014	8,192	-
Note Payable - KYT	Fixed rate of 4.96% with principal payment at end of note	2014	7,000	7,000
Note Payable - KYT	Fixed rate of 6.46% with principal payment at end of note	2014	12,500	12,500
Note Payable - ULF	Annually adjustable fixed rate, 6.24% as of June 30, 2012, with principal and interest payments due monthly	2020	1,726	1,908
Line of Credit - Nucleus	Variable rate, 2.23% as of June 30, 2012 - unsecured	2013	4,120	4,120
Line of Credit - ULF	Variable rate, 0.87% as of June 30, 2012, with interest payments due monthly	2014	8,854	-
Total bonds and notes payable			90,887	83,585
Plus unamortized premium			367	390
Bonds and notes payable, net			$ 91,254	$ 83,975

a. Bonds Payable

The outstanding bonds are secured by deposits with the bond trustee, which are reported in restricted investments in the consolidated statements of financial position as of June 30, 2012 and 2011 and mortgages on the respective properties.

b. Notes Payable - AAF

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

This note is collateralized by a mortgage on Cardinal Station and pledges of lease and rent revenue.

c. Notes Payable - KYT

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

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

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

d. Note Payable – ULF

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

e. Line of Credit – Nucleus

In February 2008, Nucleus assumed a $5.0 million line of credit agreement with a financial institution, which matures on October 16, 2012. It is subsequently renewed and extended in six month intervals. The line is unsecured and guaranteed by the Foundation. There was approximately $880,000 unused and available on the line of credit at June 30, 2012 and 2011.

f. Line of Credit – ULF

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

As of June 30, 2012, approximately $22.1 million was unused and available 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 Ended June 30,	**Principal Due**
2013	$ 5,761
2014	38,314
2015	1,886
2016	1,991
2017	2,061
Thereafter	40,874
	$ 90,887

5. Guarantees

a. Bonds Payable

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

Residence Hall	**Aggregate limit**	**Annual limit**
Bettie Johnson Hall	$ 32,455	$ 2,938
Kurz Hall	21,367	955
Community Park	31,308	1,121

b. Notes Payable and Line of Credit

ULF is the guarantor of the AAF and KYT notes payable and the Nucleus line of credit. As of June 30, 2012 and 2011, the outstanding principal related to the notes payable was $27.7 million and the outstanding principal related to the line of credit was $4.1 million.

In June 2012, ULF guaranteed a $12.0 million line of credit for the University of Louisville Physicians, Inc. (ULP) maturing on June 25, 2013. As of June 30, 2012 the principal amount outstanding was approximately $5.0 million.

c. Loans

As of June 30, 2012, ULF guaranteed three loans related to student organizations. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection expenses and costs. The total amount approved for loans was approximately $1.2 million, with $1.0 million outstanding, as of June 30, 2012 and 2011.

In December 2010, ULF guaranteed 51% of the outstanding loans of Campus One, LLC. As of June 31, 2012 and 2011, the amount under guarantee was $4.4 million and $0.8 million, respectively.

d. Association Mortgage Revenue Bonds

In July 2008, the Louisville Metro Government issued $39.8 million of Mortgage Revenue Bonds 2008 Series A and $43.5 million of Mortgage Revenue Bonds 2008 Series B (Mortgage Revenue Bonds) at a combined net interest cost of 4.2%, 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, 2012 and 2011, the total amount outstanding on the Mortgage Revenue Bonds was $65.8 million and $71.6 million, respectively.

e. Lease Guarantee

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

6. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities which are held and controlled by others. One of these is a perpetual and irrevocable trust known as the University of Louisville Trust (Trust). It was created in 1983 to receive, administer, and invest assets which result from gifts to the Trust. The market value of the Trust was approximately $17.9 million and $18.4 million as of June 30, 2012 and 2011, respectively. The Foundation's portion of the market value of the remaining trusts was approximately $25.8 million and $26.7 million as of June 30, 2012 and 2011, respectively. These funds are invested in various equities and income producing assets. For the years ended June 30, 2012 and 2011, the Foundation received income of approximately $1.9 million and $3.1 million, respectively, from these trusts. These receipts are included in endowment income.

7. Funds Held in Trust for Others

The Foundation is the custodian of funds owned by the Association. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. The Foundation serves in an agency capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2012 and 2011, the Foundation held approximately $36.8 million for the Association's investment purposes.

During the year ended June 30, 2005, the Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing healthcare services. As of June 30, 2012 and 2011, the Foundation held approximately $9.4 million and $10.2 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, 2012 and 2011, the Foundation held approximately $0.2 million and $0.3 million, respectively, for the benefit of the Louisville Orchestra.

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

8. Change in Accounting Principle

In the year ended June 30, 2011, the Foundation adopted the recognition provisions of Financial Accounting Standards Board ASC Topic 958-205-05, *Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958). The Foundation previously adopted the disclosure requirements of this standard in 2009. This new standard changes the method of classification of net assets comprising donor-restricted endowment funds when the Foundation is subject to an enacted and effective version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Initial application of the disclosure provisions of ASC 958 at July 1, 2009 had no impact on previously reported beginning net assets.

The following table presents the incremental effect on the 2011 consolidated statement of activities upon adoption of UPMIFA (in thousands):

	Before Adpotion of UPMIFA	Adjustments	After Adpotion of UPMIFA
Net realized and unrealized gains - unrestricted	$ 117,484	$ (82,168)	$ 35,316
Net realized and unrealized gains - temporarily restricted	$ 7,077	$ 82,168	$ 89,245
Total revenues, gains, and other support - unrestricted	$ 179,084	$ (82,168)	$ 96,916
Total revenues, gains, and other support - temporarily restricted	$ (10,918)	$ 82,168	$ 71,250
Net change in assets from operations - unrestricted	$ 87,392	$ (82,168)	$ 5,224
Net change in assets from operations - temporarily restricted	$ (10,918)	$ 82,168	$ 71,250
Net assets, end of year- unrestricted	$ 390,367	$ (217,845)	$ 172,522
Net assets, end of year- temporarily restricted	$ 34,246	$ 216,694	$ 250,940
Net assets, end of year- permanently restricted	$ 385,533	$ 1,151	$ 386,684

b. <u>OMHS/U of L Cancer Research Center, Inc.</u>

In March 2007, the OMHS/U of L Cancer Research Center, Inc. (the Center) was incorporated with the purpose 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, 2012 and 2011 the Center does not have material operations to be presented.

12. <u>Risk Management</u>

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

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $250 and $300,000 per occurrence. Losses in excess of $300,000 are insured by commercial carriers up to $200 million per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2011 to 2012. 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, 2012 and 2011, respectively, was approximately $50.3 million and $47.9 million, including $4.4 million and $4.7 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net assets.

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Salaries and wages	$ 442,184	$ 429,504
Employee benefits	111,811	98,873
Utilities	20,485	21,173
Scholarships and fellowships	33,854	33,507
Depreciation	62,575	47,426
Supplies and other services	146,331	148,402
	$ 817,240	$ 778,885

14. Retirement Plans

a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. This plan was established by the University and approved by the Board of Trustees. Eligible employees not contributing to the plan are entitled to a 7.5% of base salary contribution on their behalf by the University. Employees wishing to contribute are allowed to contribute up to 2.5% of base salary and are entitled to up to 10.0% base salary contribution on their behalf by the University. 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, 2012 and 2011 is presented as follows (in thousands):

	2012	2011
Total University payroll	$ 447,317	$ 434,502
Total payroll covered by the plan	432,358	412,194
Employee contributions	22,125	21,446
University contributions	32,197	30,274

b. Prior Service Defined Benefit Program

Effective July 1, 1977, the University entered into an agreement with Teachers Insurance Annuity Association (TIAA) to fund, over approximately 30 years, the prior service defined benefit program for both currently retired and eligible actively employed participants. There were no annual required contributions for the year ended June 30, 2012 and June 30, 2011. 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, 2012 and 2011 follow (in thousands):

	2012	**2011**
Actuarial present value of non-vested accumulated plan benefits	$ 1,974	$ 2,077
Net assets available for benefits	$ 2,301	$ 2,504
Net pension surplus	$ (327)	$ (427)
Funded ratio	117%	121%

The actuarial present value of plan benefits is non-vested because the plan and benefits provided there under are at all times at the discretion of the University. The net pension surplus represents the amount of net assets available for benefits in excess of the actuarial liability. The assumed rate of return used to determine the present value of accumulated non-vested benefits was 6.0% for each of the years ended June 30, 2012 and 2011, for preretirement and postretirement periods.

15. Postemployment Healthcare Benefits

a. Plan Description

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

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

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. During the years ended June 30, 2012 and 2011, the University contributed approximately $0.8 million and $0.5 million, approximately 50% and 42% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million and $0.7 million approximately 50% and 58% of total premiums for the years ended June 30, 2012 and 2011, respectively, through their required monthly contributions according to the schedules on the following page.

2012	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low
Employee	$ 364	$ 394	$ 406	$ 254	$ 183
Employee and Spouse	$ 738	$ 803	$ 825	$ 558	$ 426

2011	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low	Out of Area
Employee	$ 337	$ 364	$ 375	$ 236	$ 171	$ 354
Employee and Spouse	$ 679	$ 738	$ 759	$ 514	$ 393	$ 685

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2012 and 2011, the University contributed $1.2 million and $1.1 million, respectively, for Medicare-eligible retirees.

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

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

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

	2012	2011
Normal cost	$ 5,068	$ 5,033
AAL amortization	4,313	4,215
Annual required contribution (ARC)	9,381	9,248
Interest on above	759	710
Adjustment to ARC	(886)	(789)
OPEB liability gain	(5,917)	(15,256)
Annual OPEB cost/(gain) (AOC)	3,337	(6,087)
Contributions made	(2,025)	(1,643)
Increase/(decrease) in net OPEB obligation	1,312	(7,730)
Net OPEB obligation - beginning of year	22,733	30,463
Net OPEB obligation - end of year	$ 24,045	$ 22,733

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/(Gain)	Percentage of Annual OPEB Cost/(Gain) Contributed	Net OPEB Obligation
2012	$ 3,337	61%	$ 24,045
2011	(6,087)	-27%	22,733
2010	14,623	13%	30,463

d. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $79.9 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of $79.9 million as of June 30, 2012 and 2011. The covered payroll (annual payroll of active employees covered by the plan) was $417.7 million and $400.9 million, and the ratio of the UAAL to the covered payroll was 19% and 20%, for the years ended June 30, 2012 and 2011, 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, 2011, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3.0% 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 9.5% initially, reduced by decrements to an ultimate rate of 5% after 9 years. The gain on the benefit obligation recognized during the fiscal year ended June 30, 2011 was due to updates made on expected future health claims and changes made to the retiree life insurance benefit. Expected claims 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, 2012 was 25 years.

16. Affiliation and Lease Agreements

a. University Medical Center, Inc. Affiliation and Lease Agreement

The University and UMC have entered into an affiliation agreement that calls for, among other things, UMC to pay the University its annual Surplus Cash Flow calculated in a statement of cash flows prepared by UMC in accordance with accounting principles generally accepted in the United States of America. Revenues reflected in the accompanying financial statements relative to this item was approximately $5.5 million and $10.9 million for the fiscal years ended June 30, 2012 and 2011, and are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net assets. Payments of surplus cash flows shall be made by UMC to the University (a) on January 1 and July 1 of each year of the affiliation agreement based on a good faith estimate of half the surplus cash flow existing on such date, and (b) within one hundred twenty (120) days following the end of the UMC fiscal year based on surplus cash flow as reflected on the audited financial statements (less amounts previously paid by UMC in the semi-annual estimated payments).

The agreement also calls for, among other things, UMC to provide funding (salary, benefits and malpractice coverage) for certain full-time equivalent resident positions over the term of the affiliation agreement. Annually, UMC determines the number of resident positions it will fund based upon (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital and (c) the clinical load at the Hospital and related facilities. Funding levels for the years ended June 30, 2012 and 2011 were approximately $40.0 million and $40.1 million, respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net assets.

The Commonwealth and the University as lessor entered into a lease agreement with UMC to lease the Hospital. The annual lease payment was $5.0 million through February 7, 2001. At that time, it escalated by $500,000 annually and will continue to escalate every five years thereafter up to $7.5 million. Included in the agreement is a provision that $5.0 million of the annual rent payment will flow to the Quality and Charity Care Trust. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was $0.7 million and $0.9 million for the years ended June 30, 2012 and 2011, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net assets.

The accompanying statements of net assets as of June 30, 2012 and 2011 include approximately $8.5 million and $14.6 million, respectively, in accounts receivable representing amounts due from UMC pursuant to the above agreements.

In June 1997, UMC, pursuant to the Affiliation and Lease Agreement, issued $85 million of Health Facilities Revenue Bonds (the Series 1997 Bonds), which were secured in part by a pledge of the revenues of the Hospital. Prior to the termination of the Affiliation Agreement, the University is not responsible for the payment of the principal, premium, if any, or interest on the Series 1997 Bonds. Pursuant to the terms of the Affiliation Agreement, upon the effective date of the termination of the Affiliation Agreement, the University has agreed, to the extent permitted by law, to pay all debt, including the Series 1997 Bonds of UMC that was approved by the Board of Directors of UMC prior to the termination of the Affiliation Agreement or incurred in the ordinary course of business. In such event, the security interest in the pledged revenues shall remain in effect, and the Series 1997 Bonds shall be payable solely from the pledged revenues and amounts, if any, appropriated by the Kentucky legislature.

In the opinion of counsel to the University, the security interest in the pledged revenues of the Hospital granted to the University is enforceable in accordance with its terms.

The laws of Kentucky currently prohibit agencies of the state, such as the University, from incurring general obligation debt without the prior approval of the electorate. Therefore, the unconditional obligation of the University to pay the debt of UMC may be unenforceable. To the extent pledged revenues are insufficient to pay the obligations secured thereby (including the payments with respect to the Series 1997 Bonds), such payments may be made only from funds, if any, appropriated by the Kentucky legislature for such purposes pursuant to its biennial budget process. Under the Affiliation Agreement, the University has agreed to use its best efforts to obtain any and all approvals and authorizations (including legislative appropriations) which may be required to undertake the payment of UMC's debt, including its indebtedness with respect to the Series 1997 Bonds. No assurance can be given that the Kentucky legislature will appropriate funds for the payment of debt service on the Series 1997 Bonds.

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. Medical School Practice Association

The Medical School Practice Association (MSPA), doing business as University Physician Associates, provides and administers the medical care of patients at the clinics and the medical educational missions of the University. Additionally, MSPA performs the credentialing service for the physicians and contracts with the insurance groups on behalf of the Physician groups.

The Board of Directors consists of the Chairmen of the departments of the University of Louisville School of Medicine. However, the University is not able to impose its will on the Boards of the organization. It does not influence the normal operations of the MSPA or the clinics it operates. Therefore, the MSPA is not included in the financial statements of the University.

c. Quality and Charity Care Trust Transfers for Hospital Operations

In April 1996, the University entered into The Quality and Charity Care Trust agreement with the Commonwealth, Jefferson County, the City of Louisville, and UMC for the purpose of providing medically necessary hospital care, both inpatient and outpatient, to indigent patients in the Louisville area.

The University established an affiliated corporation known as The Quality and Charity Care Trust, Inc. to receive government funds and disburse 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. Funding of $24.7 million and

$24.9 million for the years ended June 30, 2012 and 2011, respectively, provided by the government is held for the Trust by the University and paid to UMC as specified in the Trust agreement. This funding is not included in the statements of revenues, expenses and changes in net assets as it is a pass-through to UMC.

d. Cardiovascular Innovation Institute, Inc.

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 calls 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, 2012 and 2011 amounted to approximately $55,000.

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. 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, 2012 and 2011 amounted to approximately $82,000 and $79,000, 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 each of the years ended June 30, 2012 and 2011 amounted to approximately $3.0 million. 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, 2012 and 2011 amounted to approximately $0.7 million.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50% of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25% of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50% of all rental/commission payments received in connection with the gift shop and its operations, and 50% of any additional merchandise revenue received from any source other than the gift shop; (c) 50% of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3% of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage. Total lease revenue during the years ended June 30, 2012 and 2011 amounted to approximately $2.3 million and $2.2 million, respectively.

d. Future Minimum Lease Payments

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

For the year ended June 30,	**Lease Payment Due**
2013	2,669
2014	1,727
2015	705
2016	682
2017	682
2018-2022	2,326
2023-2027	1,898
2028-2032	1,482
2033-2037	1,472
2038-2042	1,425
2043-2047	570
Future minimum lease payments	$ 15,638

18. Commitments and Contingencies

a. Commitments

At June 30, 2012, the University had approximately $50.6 million in encumbrances outstanding for future expenditures.

b. Litigation

The University has been named as defendant in several lawsuits, including several actions initiated by patients involving alleged malpractice. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance coverage and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University beyond the amounts already provided.

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

c. Government Grants

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

d. Current Economic Conditions

The current economic situation continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets. The financial statements have been prepared using values and information currently available to the University.

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

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

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabaility (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/2011	$ -	$ 79,912	$ 79,912	0%	$ 417,692	19%
7/1/2010	-	79,892	79,892	0%	400,911	20%
7/1/2009	-	88,808	88,808	0%	378,059	23%