UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Auditor's Report and Financial Statements
June 30, 2013 and 2012

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Louisville and Affiliated Corporations (University) and its discretely presented component unit, collectively, a component unit of the Commonwealth of Kentucky, which are comprised of statements of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The consolidated financial statements of the discretely presented component unit, the University of Louisville Foundation, Inc. and Affiliates, were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit as of June 30, 2013 and 2012, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013 the University changed its method of accounting for service concession arrangements in accordance with Governmental Accounting Standards Board No. 60. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013, 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.

BKD, LLP

Louisville, Kentucky
October 2, 2013

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, 2013, 2012 and 2011. 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 2012 enrollment of 22,293 students and 6,901 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. Shelby Campus is also the site of commercial development through Campus One and Campus Two, joint ventures between the University of Louisville Foundation, Inc. (Foundation) and NTS. 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 2012-2013, 2011-2012 and 2010-2011 academic years, the University conferred 4,825, 4,897 and 4,686 degrees, respectively, consisting of:

	2013*	2012	2011
Baccalaureate	2,731	2,702	2,618
Masters/Specialist	1,379	1,439	1,333
First Professional	375	361	371
Certificate	24	28	24
Doctorate	140	188	163
Associate	28	11	19
Post Baccalaureate	141	163	158
Post Masters	7	5	-

***Data preliminary pending final reconciliation with the Kentucky Council on Postsecondary Education (CPE).

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 25.0 in the Fall of 2012, and the number of endowed chairs to 153 for fiscal year 2013. The University completed a $25 million campus energy conservation project, consisting of multiple energy conservation measures within 17 educational and general buildings on the Health Science, Shelby and Belknap campuses. The project is expected to produce annual utility cost savings of over $2.0 million.

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, 2013, with total assets of $1.2 billion that exceed total liabilities and deferred inflows of resources of $521.0 million by a ratio of over 2:1, consistent with the ratio as of June 30, 2012. Net position, which represents the residual interest in the University's assets after liabilities and deferred inflows of resources are deducted, was $704.7 million as of June 30, 2013.

- Gross tuition and fees were $264.7 million for the year ended June 30, 2013, an increase of $16.3 million, or 7% compared to the $248.4 million reported in the previous year. Approved tuition rate increases for 2012-13 generated approximately $11.7 million in additional tuition revenues in addition to enrollment increases and other fee increases, which contributed approximately $4.6 million.

- Total general fund appropriations from the Commonwealth were $144.1 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 $576.2 million and operating expenses were $852.0 million resulting in a net operating loss of $275.8 million. When adjusted for $144.1 million in state appropriations and $67.0 million in other net nonoperating revenues, net position of the University decreased by $64.7 million for the year ended June 30, 2013.

- During the year end June 30, 2013, the University adopted GASB No. 60 *Accounting & Financial Reporting for Service Concession Arrangements*. This standard was applied retroactively and prior statements were restated related to the University's food service contract.

Using the Financial Statements

The University's financial report includes three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements 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 $7.1 million and $12.3 million for the years ended June 30, 2013 and 2012, respectively.

Statements of Net Position

The statements of net position present the financial position of the University at the end of the fiscal year and include all assets, liabilities, and deferred inflow of resources of the University. Net position, the difference between total assets, total liabilities, and total deferred inflows of resources, provide a snapshot of the current financial condition of the University at the end of a fiscal year. The change in net position indicates whether the overall financial condition has improved or worsened during the year. Assets, liabilities, and deferred inflows of resources are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less accumulated depreciation. The University's assets, liabilities, deferred inflows of resources and net position at June 30, 2013, 2012 and 2011 are summarized on the following page:

Condensed Statements of Net Position
June 30, 2013, 2012, and 2011
(In Thousands)

	2013	Restated 2012	Restated 2011	2013 - 2012 Change	Restated 2012 - 2011 Change
ASSETS					
Current assets	$ 176,230	$ 196,346	$ 221,100	$ (20,116)	$ (24,754)
Long-term investments	57,501	59,963	62,254	(2,462)	(2,291)
Capital assets, net	884,809	886,067	888,181	(1,258)	(2,114)
Other	107,121	119,601	110,191	(12,480)	9,410
Total assets	1,225,661	1,261,977	1,281,726	(36,316)	(19,749)
LIABILITIES					
Current liabilities	179,170	153,398	150,052	25,772	3,346
Noncurrent liabilities	335,795	331,979	318,379	3,816	13,600
Total liabilities	514,965	485,377	468,431	29,588	16,946
DEFERRED INFLOWS OF RESOURCES	6,011	7,223	7,783	(1,212)	(560)
NET POSITION					
Net investment in capital assets	610,148	611,630	617,086	(1,482)	(5,456)
Restricted-nonexpendable	1,538	1,421	1,535	117	(114)
Restricted-expendable	83,254	88,728	89,524	(5,474)	(796)
Unrestricted	9,745	67,598	97,367	(57,853)	(29,769)
Total net assets	$ 704,685	$ 769,377	$ 805,512	$ (64,692)	$ (36,135)

Assets

Current assets amounting to $176.2 million consist primarily of cash of $93.8 million; loans, accounts and contributions receivable, net of $44.3 million; short-term investments of $13.3 million and deposit with bond trustee and escrow agent of $12.4 million.

Current assets decreased $20.1 million, reflecting the decreases in cash and cash equivalents of $16.5 million, loans, accounts and contributions receivable, net of $8.8 million, and due from Foundation of $6.0 million. The decrease in cash and cash equivalents is primarily related to decreased funding from clinical services, as clinical units are moved to the University of Louisville Physicians, Inc. (ULP), and grants. The decrease in loans, accounts and contribution receivable was principally due to $5.5 million decrease in the receivable from the hospital affiliation agreement, as no amounts were outstanding as of June 30, 2013. Due from the Foundation increases and decreases as the University makes disbursements on behalf of the Foundation and is subsequently reimbursed. Partially offsetting these decreases was the increase in short-term investments of $11.0 million as cash is shifted away from the state investment pool to individual securities, to improve returns and for diversification.

Noncurrent assets total $1.0 billion and include capital assets, net of accumulated depreciation of $884.8 million, which represents 72% of total assets. Other noncurrent long-term investments total $57.5 million, restricted cash and cash equivalents were $54.2 million and noncurrent loans, accounts and contributions receivable were $39.4 million.

Noncurrent assets decreased $16.2 million, including a decrease of $11.9 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 decreased by progress payments to contractors, including a project to construct a new student recreation center, the first building on campus to employ geothermal energy sources. Investments held with the

Foundation decreased $4.1 million as the Association liquidated investments to support the University and fulfill planned contract obligations.

Liabilities

As of June 30, 2013, the University's $515.0 million in total liabilities consist of $179.2 million in current liabilities and $335.8 million in noncurrent liabilities. Accounts payable and accrued liabilities of $94.9 million and advances of $57.8 million comprise 85% of total current liabilities. The $25.8 million increase in current liabilities relates primarily to the $18.7 million increase in accounts payable and accrued liabilities and the $6.0 million increase in advances. Accounts payable increased principally for the liability related to the voluntary separation incentive plan. Advances increased for deferred summer tuition, as enrollment and rates increased, and for increased sales of season football tickets.

Noncurrent liabilities consist chiefly of $270.6 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 increase in noncurrent liabilities relates primarily to the $14.0 million increase in other long-term liabilities, offset by the $8.5 million decrease in bonds and notes payable. The increase in other long-term liabilities relates principally to the liability for the voluntary separation incentive plan.

Deferred Inflows of Resources

In addition to assets and liabilities, the University reports deferred inflows of resources, which represent an acquisition of net position that applies to future periods. The University reports as other long-term assets the fair market value of two financial derivatives related to outstanding debt. As both derivatives are considered to be effective in the reduction of risk, the change in their fair market value is shown as a deferred inflow of resources. The decrease in fair market value related to the forward delivery agreement of $180 thousand was offset by the fair market value of the interest rate swap entered into as part of the term loan received in June 2013.

During the fiscal year ended June 30, 2013, the University adopted GASB No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*, applying the standard retroactively to all prior periods presented. Under the standard, the net of the investments and contributions provided by agreement with the University's food service provider totaling $5.6 million and $6.7 million for June 30, 2013 and 2012, respectively, are recorded as a deferred inflows of resources on the statements of net position. The decrease relates to its recognition as revenue evenly over the life of the contract.

Net Position

The University's net position at June 30, 2013 was $704.7 million. A review of the University's statements of net position at June 30, 2013 and 2012 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.

The Statements of Revenues, Expenses and Changes in Net Position provide detail for the changes in net position.

The University's total net position is summarized into four major categories in accordance with GASB Statement No. 35 reporting requirements as amended by GASB Statement No. 63 as follows:

Net Investment in Capital Assets - $610.1 million

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

Restricted-nonexpendable Net Position - $1.5 million

Restricted-nonexpendable net position includes amounts that are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. The University's restricted-nonexpendable net position consists of permanent endowment for scholarships.

Restricted-expendable Net Position - $83.3 million

Restricted-expendable net position represents net position that is subject to externally imposed restrictions governing its use for a particular purpose or period of time, related deferred outflows or deferred inflows of resources, reduced by the outstanding balance of any related liabilities. The University's most significant net position in this category as of June 30, 2013 consists of amounts restricted for capital projects of $31.8 million, debt service of $25.0 million, and institutional support of $16.7 million. Net position restricted-expendable 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 amounts restricted for institutional support relate primarily to the funds received under the agreement with the University Medical Center, Inc. The net position remains restricted until a contract is completed or the restrictions are otherwise expired.

Unrestricted Net Position - $9.8 million

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

Capital Assets

Actual capital additions totaled $56.7 million in 2013. Capital additions consisted mainly of $36.1 million in additions to construction in progress, $9.5 million in investments in equipment including information technology, $8.7 million in investment in library materials and $2.2 million in additions to buildings and land improvements. Construction in progress additions includes $24.5 million to construct a student recreation center, $2.0 million for the Dr. Mark & Cindy Lynn Soccer Stadium, $1.8 million for energy saving improvements for buildings on Belknap, Health Sciences and Shelby campuses and $1.7 million for Belknap Science and Engineering Park Road.

Prior Year Discussion

The University's $1.3 billion in assets includes current assets of $196.3 million, composed of cash and cash equivalents of $110.3 million and loans, accounts and contributions receivable, net of $53.0 million. A decrease of $24.8 million reflected the decrease in cash and cash equivalents of $9.6 million a result of a decrease in grant funding. Loans, accounts and contributions receivable decreased $4.8 million principally due to timing of the receipt of funds from the receivable related to the hospital affiliation agreement.

Noncurrent assets totaling $1.1 billion include capital assets, net of accumulated depreciation of $886.1 million, restricted cash and cash equivalents of $66.1 million, other noncurrent long-term investments totaling $60.0 million and noncurrent loans, accounts and contributions receivable, net of $36.1 million. Noncurrent assets increased $5.0 million including an increase of $13.2 million in restricted cash and cash equivalents, which increased principally for the capital construction activities of the University including the issuance of debt to construct a new Student Recreation Center. Partially offsetting this increase was a decrease in pledges of the Association recorded as loans, accounts and contributions receivable.

The University's $485.4 million in liabilities consist of $153.4 million in current liabilities and $332.0 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 decrease in the liability for unearned compensation and wages payable of $2.8 million. Accounts payable increased principally for the timing of the wire of retirement contributions to the University's provider. Unearned compensation decreased due to the payment of contractual obligations.

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 $13.6 million increase in noncurrent liabilities relates primarily to the $12.3 million increase in bonds and notes payable. This increase was due to the issuance of a bond to finance the construction of a Student Recreation Center.

The balance of deferred inflows of resources of $7.2 million and $7.8 million for June 30, 2012 and 2011, respectively, principally represent the net of the investments and contributions required by agreement with the University's food service provider totaling $6.7 million and $7.8 million. The decrease is related to the recognition of the net benefit over the life of the contract.

Net position decreased $36.1 million as compared to June 30, 2011, due to decreases in clinical services and practice plan revenue of $20.9 million and grants and contracts revenue of $11.7 million.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position present the University's results of operations. Condensed statements of the University's revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011, are summarized on the following page:

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2013, 2012, and 2011
(In Thousands)

	2013	Restated 2012	Restated 2011	2013 - 2012 Change	Restated 2012 - 2011 Change
OPERATING REVENUES					
Student tuition and fees, net	$ 195,627	$ 182,902	$ 173,275	$ 12,725	$ 9,627
Clinical services and practice plan	193,318	190,531	211,476	2,787	(20,945)
Grants and contracts	94,323	110,487	113,735	(16,164)	(3,248)
Facilities and administrative cost recoveries	24,011	26,899	27,582	(2,888)	(683)
Other	68,881	62,169	66,375	6,712	(4,206)
Total operating revenues	576,160	572,988	592,443	3,172	(19,455)
OPERATING EXPENSES					
Depreciation	57,418	62,724	47,576	(5,306)	15,148
Other	794,587	766,790	747,331	27,797	19,459
Total operating expenses	852,005	829,514	794,907	22,491	34,607
NONOPERATING REVENUES (EXPENSES)					
State appropriations	144,066	156,114	153,985	(12,048)	2,129
Other nonoperating revenues	85,088	64,277	81,522	20,811	(17,245)
Total nonoperating revenues	229,154	220,391	235,507	8,763	(15,116)
Voluntary separation plan expense	18,001	-	-	18,001	-
(Decrease)/increase in net position	(64,692)	(36,135)	33,043	(28,557)	(69,178)
Net position - beginning of year, as previously reported	769,377	805,512	772,347	(36,135)	33,165
Adjustment applicable to prior year	-	-	122	-	(122)
Net position - beginning of year, as restated	769,377	805,512	772,469	(36,135)	33,043
Net position - end of year	$ 704,685	$ 769,377	$ 805,512	$ (64,692)	$ (36,135)

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 $69.1 million and $65.5 million, were $195.6 million and $182.9 million, or 34% of total operating revenues, for each of the years ended June 30, 2013 and 2012, respectively. Gross tuition and fees revenues increased $16.3 million, or 7% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing $11.7 million and increased enrollment and other fee increases providing $4.6 million. The increase was offset by the increase in tuition discount of $3.6 million, due mainly to increased scholarships, which are directly related to tuition rates.

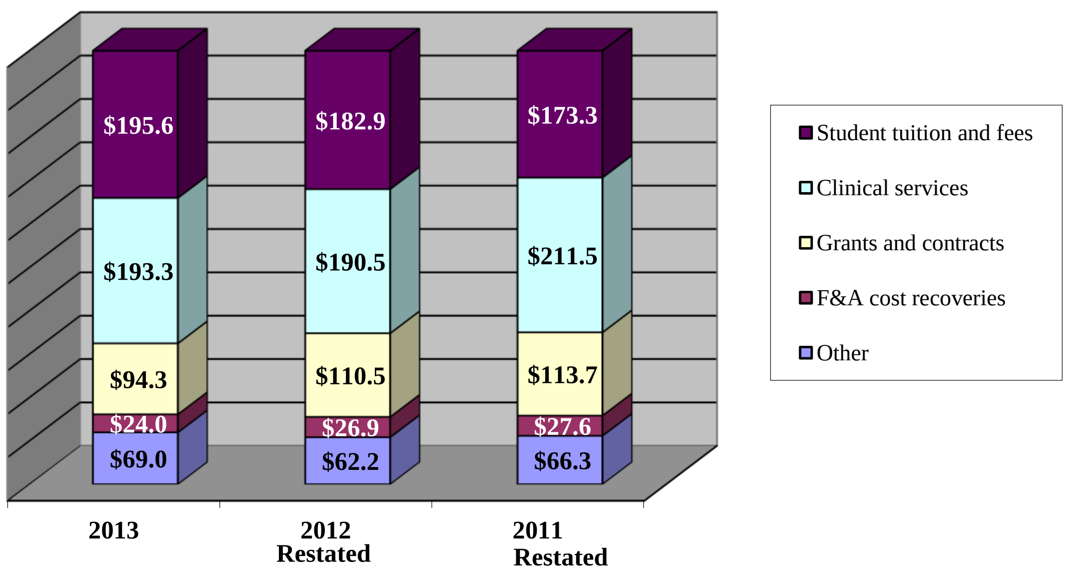
Clinical services and practice plan revenue amounted to $193.3 million and $190.5 million, or about 34% of total operating revenues, for each of the years ended June 30, 2013 and 2012. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Clinical services and practice plan revenue increased by $2.8 million, driven by increased revenue from the hospital affiliation agreement and a new hospital lease agreement.

Revenue from grants and contracts was $94.3 million and $110.5 million for the years ended June 30, 2013 and 2012, 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 $24.0 million and $26.9 million for the years ended June 30, 2013 and 2012. These funds assist the University with its vision to become first choice for students and to 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, 2013, 2012 and 2011 (in millions).

Operating Revenues
Years ended June 30, 2013, 2012, and 2011

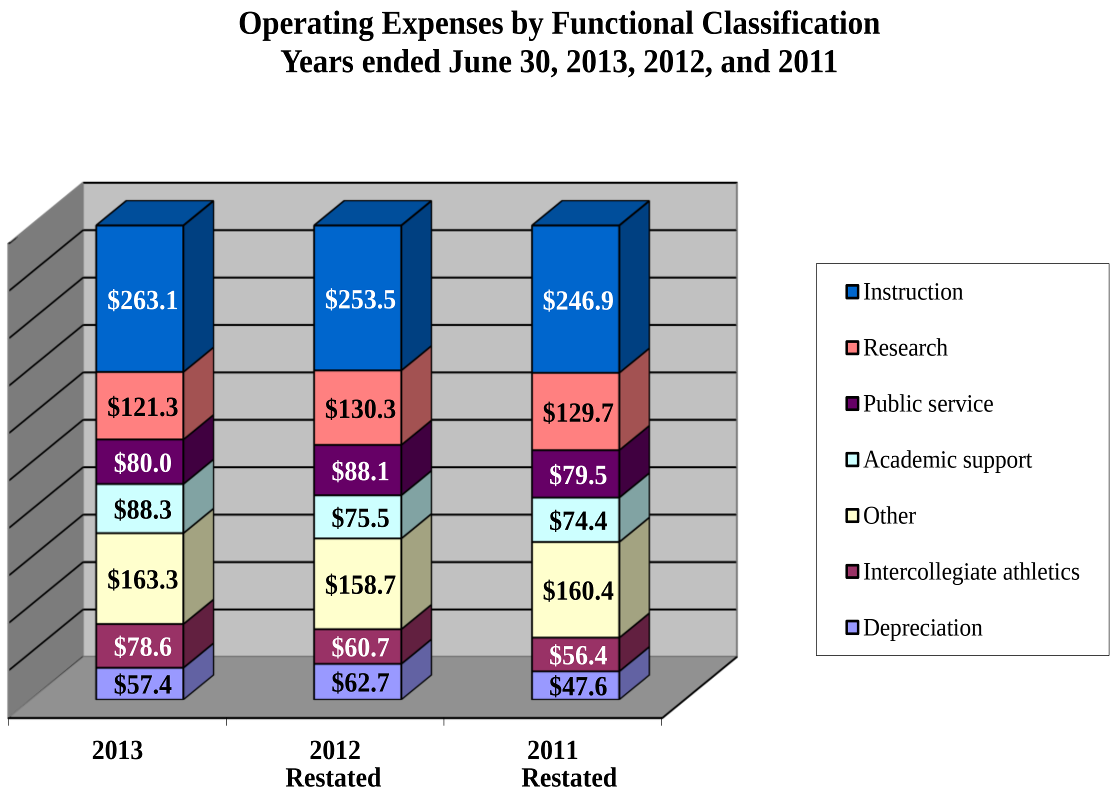


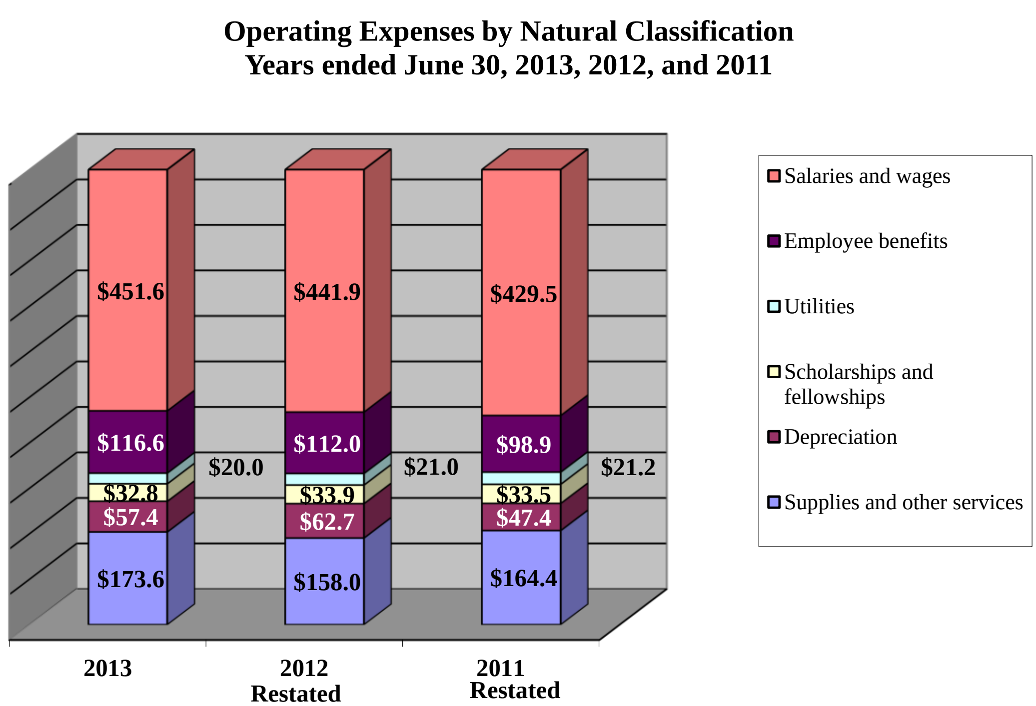
Operating Expenses

Operating expenses amounted to $852.0 million and $829.5 million and exceeded operating revenues by $275.8 million and $256.5 million for the years ended June 30, 2013 and 2012, respectively. When offset by total nonoperating revenues of $229.1 million and $220.4 million and after reduction for the voluntary separation plan expense of $18.0 million during fiscal 2013, total net position for the year decreased by $64.7 million and $36.1 million for the years ended June 30, 2013 and 2012, respectively.

Operating expenses increased by $22.5 million or 3% 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, 2013, 2012 and 2011 (in millions):





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 $568.2 million and $553.9 million in 2013 and 2012, respectively.

Nonoperating Revenues (Expenses)

General state appropriations amounting to $144.1 million and $156.1 million were the most significant nonoperating revenues for the years ended June 30, 2013 and 2012, respectively.

In total, net nonoperating revenues and other revenues increased $8.8 million from the prior year including the increase in other nonoperating revenues of $18.1 million and the decrease in state appropriations of $12.0 million. Other nonoperating revenues increased due to the refund of the employer portion of FICA tax on medical residents paid in years prior to April 2005. State appropriations decreased in accordance with the budget passed by the Commonwealth.

Voluntary separation plan expense of $18.0 million is principally related to the accrual of contractual payments associated with the acceptance by eligible employees of an offer to make certain separation payments.

Prior Year Discussion

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 $4.9 million. Clinical services and practice plans revenue amounted to $190.5 million and $211.5 million for the years ended June 30, 2012 and 2011, respectively. Clinical services and practice plans revenue decreased by $20.9 million primarily due to decreased revenue from Medicaid. Revenue from grants and contracts was $110.5 million and $113.7 million for the years ended June 30, 2012 and 2011, respectively. Facilities and administrative cost recoveries was $26.9 million and $27.6 million for the years ended June 30, 2012 and 2011.

Operating expenses amounted to $829.5 million and $794.9 million for the years ended June 30, 2012 and 2011, respectively. Operating expenses increased by $34.6 million, or 4%, over the amount reported in the previous year.

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 $15.1 million from the prior year including decreases in nonexchange grants and contracts of $7.7 million and realized and unrealized gains on investments of $7.2 million. The decrease in nonexchange grants and contracts revenue is principally due to the closure of a grant of state fiscal stabilization funds. The decrease in realized and unrealized gains on investments was due to reduced market value returns on Association investments in the Foundation.

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, 2013, 2012 and 2011 are summarized below:

Condensed Statements of Cash Flows
Years ended June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011	2013 - 2012 Change	2012 - 2011 Change
Cash (used)/provided by:					
Operating activities	$ (188,944)	$ (179,367)	$ (183,996)	$ (9,577)	$ 4,629
Noncapital financing activities	229,338	231,137	238,763	(1,799)	(7,626)
Capital and related financing activities	(62,077)	(54,857)	(69,372)	(7,220)	14,515
Investing activities	(6,725)	6,687	3,461	(13,412)	3,226
Net (decrease)/increase in cash and cash equivalents	(28,408)	3,600	(11,144)	(32,008)	14,744
Cash and cash equivalents, beginning of year	176,461	172,861	184,005	3,600	(11,144)
Cash and cash equivalents, end of year	$ 148,053	$ 176,461	$ 172,861	$ (28,408)	$ 3,600

Operating Activities

Cash used for operating activities increased $9.6 million due to increased cash used for payments to employees of $11.3 million and decreased cash provided from grants and contracts of $9.5 million. Partially offsetting these cash uses, cash provided by tuition and fees increased $13.3 million, due to increased enrollment and tuition rates.

Financing Activities

Cash from noncapital financing activities decreased $1.8 million primarily due to decreased cash provided by state appropriations of $15.0 million and decreased cash provided by transfers from related entities of $3.6 million offset by increased cash provided by other noncapital financing activities of $17.5 million. The reduction in cash from state appropriations was a result of a state imposed cut. Cash provided by other noncapital financing activities increased due to the refund of the employer portion of FICA tax on medical residents for years prior to April 2005.

Cash used for capital and related financing activities increased $7.2 million due mainly to a decrease in cash provided from proceeds from the issuance of long-term liabilities of $38.3 million. Cash provided during fiscal year 2012 from the University's issuance of General Receipts Series 2011 and General Receipts Series 2012 totaled $37.7 million and $17.0 million, respectively, and exceeded the cash provided during the current year by a $15.0 million term loan entered into by the Association. Partially offsetting the decrease in this cash source was a decrease in principal paid on long-term liabilities of $18.1 million and a decrease in cash used for purchases of capital assets of $8.6 million. The payment of principal decreased, mainly due to the refinancing of CEBRB Series N and Series O during fiscal year 2012.

Investing Activities

Cash from investing activities decreased $13.4 million due mainly to a change in the net amount of investments purchased and sold, which totaled $7.8 million purchased for the fiscal year ended June 30, 2013, as compared to $0.9 million sold for the fiscal year ended June 30, 2012. Cash provided by interest on investments also decreased $4.7 million. Earnings decreased on construction proceeds of tax exempt debt due to a decrease in the balance invested with the state and with escrow agent. Earnings also decreased on funds on deposit with bond trustee due to a scheduled decrease in the required reserves and the receipt during fiscal year 2012 of a termination payment associated with the cancelation of an investment contract.

Prior Year Discussion

For the fiscal year ended June 30, 2012, the University's cash and cash equivalents increased $3.6 million from cash provided by noncapital financing activities of $231.1 million and investing activities of $6.7 million. Partially offsetting this was cash used by operating activities of $179.4 million and capital and related financing activities of $54.8 million.

Cash used by operating activities decreased $4.6 million due to decreased payments to suppliers of $10.9 million, increased tuition and fees of $10.2 million and increased cash from clinical services and practice plan revenue of $6.5 million. Partially offsetting these cash sources, cash provided by grants and contracts decreased $6.1 million, cash used for intercollegiate athletics increased $6.3 million, payments to employees increased $4.7 million and payments for benefits increased $4.1 million.

Cash provided by noncapital financing activities decreased $7.6 million primarily due to decreased receipts from gifts of $7.9 million, and nonexchange grants and contracts of $7.7 million, partially offset by an increase of $8.0 million in cash received from state appropriations. The decrease in grants and contracts related to the end of the State Fiscal Stabilization funds from the federal government. The decrease in gifts was related to 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 of long-term liabilities of $29.7 million and a decrease in cash used for purchases of capital assets of $24.1 million. Partially offsetting the increase in cash sources was an increase in principal paid on long-term liabilities of $18.5 million to refinance two of the University's educational bonds. Cash provided by deposits with bond trustee decreased $16.6 million. Cash provided from deposit with bond trustee mainly reimburses expense of capital construction projects of the University.

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.

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, 2013, were $738.4 million, an increase of $2.0 million from the June 30, 2012, balance of $736.4 million. Investments increased due to the net realized and unrealized gain of $73.4 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 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 2014 budget. The constant dollar decrease for this period is 25.8%, 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 31.8%.

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. The fiscal year 2014 budget was flat lined from fiscal year 2013.

The reduced state funding continues to impact daily operations. The University hasn't received maintenance and operation funding for new buildings in several years. The University has been unable to fund a permanent salary increase in three of the past six fiscal years.

The budgetary decisions that support and shape the fiscal year 2014 proposed budget reflect the current and foreseeable economic realities facing public higher education institutions in general and the University in particular.

Because of the changing landscape of higher education across the United States, the University has embarked on a consultative process aimed at re-shaping and re-engineering the University. The "21st Century Initiative," led by the University Provost, is a broad-based, campus-wide initiative to position the University to meet not only the 2020 Plan goals, but to also address ways to better serve students and the community for decades to come.

This year, the annual budget focused on the University's "Upward Trajectory". Despite thirteen budget cuts in twelve years, the lack of maintenance and operations funding, and the dramatic shift in public policy that has, and continues to redirect funding away from higher education, the University has made tremendous progress in meeting its 2020 goals. The President outlined the University's successes across a myriad of key academic, research, and public service metrics, noting; "it's not just about the numbers, it's about the people." These successes, the result of hard work by the University's faculty, staff and students, has the University well positioned to meet House Bill 1's aggressive mandate to become a preeminent metropolitan research university.

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

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Net Position
June 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$ 93,810	$ 110,330
Deposit with bond trustee and escrow agent	12,365	12,756
Short-term investments	13,321	2,283
Loans, accounts and contributions receivable, net	44,281	53,032
Due from University of Louisville Foundation, Inc.	3,123	9,129
Inventories	1,067	1,154
Other assets	8,263	7,662
Total current assets	176,230	196,346
Noncurrent Assets		
Restricted cash and cash equivalents	54,243	66,131
Deposit with bond trustee	2,509	6,256
Loans, accounts and contributions receivable, net	39,420	36,095
Due from University of Louisville Foundation, Inc.	8,509	8,348
Investments held with University of Louisville Foundation, Inc.	32,710	36,779
Other long-term investments	24,791	23,184
Other long-term assets	2,440	2,771
Capital assets, net	884,809	886,067
Total noncurrent assets	1,049,431	1,065,631
Total assets	1,225,661	1,261,977
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	94,868	76,205
Unearned compensation and wages payable	1,233	1,062
Advances	57,796	51,835
Note payable to University of Louisville Foundation, Inc.	200	200
Bonds and notes payable	25,073	24,096
Total current liabilities	179,170	153,398
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	1,000	1,200
Unearned compensation and wages payable	7,441	8,038
Deposits	781	811
Advances	4,721	5,271
Amounts due to federal government for student loan programs	16,525	16,849
Other long-term liabilities	34,381	20,343
Bonds and notes payable	270,630	279,151
Total noncurrent liabilities	335,795	331,979
Total liabilities	514,965	485,377
DEFERRED INFLOWS OF RESOURCES		
Derivative fair market values	452	552
Service concession arrangement	5,559	6,671
Total deferred inflows of resources	6,011	7,223
NET POSITION		
Net investment in capital assets	610,148	611,630
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,538	1,421
Expendable		
Scholarships and fellowships	913	833
Research	3,833	4,782
Instruction	1,809	1,728
Public service	241	198
Academic support	266	167
Institutional support	16,671	10,872
Loans	2,707	2,650
Capital projects	31,768	34,924
Debt service	25,046	32,574
Unrestricted	9,745	67,598
Total net position	$ 704,685	$ 769,377

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Financial Position
June 30, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 27,303	$ 9,643
Accounts, notes and accrued interest receivable	4,221	2,868
Loans receivable from the University of Louisville Athletic Association, Inc.	1,516	1,716
Prepaid expenses and other	1,386	1,247
Contributions receivable	21,812	29,173
Investments	738,446	736,432
Funds held in trust by others	46,749	43,690
Restricted investments	5,473	4,925
Other assets	1,128	996
Capital assets, net	148,435	132,866
Total assets	$ 996,469	$ 963,556
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 6,232	$ 4,324
Funds held in trust for others	42,685	46,399
Due to University of Louisville	11,632	17,477
Other	20,158	20,972
Bonds and notes payable	100,581	91,254
Total liabilities	181,288	180,426
Net assets:		
Unrestricted:		
Unrestricted - designated	149,660	141,214
Unrestricted - undesignated	10,284	22,938
Total unrestricted	159,944	164,152
Temporarily restricted	248,622	225,418
Permanently restricted	406,615	393,560
Total net assets	815,181	783,130
Total liabilities and net assets	$ 996,469	$ 963,556

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	Restated 2012
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of $69,099 in 2013 and $65,476 in 2012	$ 195,627	$ 182,902
Clinical services and practice plan	193,318	190,531
Federal grants and contracts	73,742	85,777
State and local grants and contracts	10,700	12,150
Nongovernmental grants and contracts	9,881	12,560
Sales and services of educational departments	4,452	3,983
Facilities and administrative cost recoveries	24,011	26,899
Auxiliary enterprises, net of discount of $1,616 in 2013 and $1,506 in 2012	13,384	12,179
Intercollegiate athletics	45,878	41,984
Other operating revenues	5,167	4,023
Total operating revenues	576,160	572,988
OPERATING EXPENSES		
Instruction	263,106	253,515
Research	121,343	130,300
Public service	80,039	88,060
Academic support	88,348	75,490
Student services	27,043	26,130
Institutional support	44,178	44,765
Operation and maintenance of plant	54,986	48,995
Scholarships and fellowships	28,870	30,476
Auxiliary enterprises	8,045	8,363
Intercollegiate athletics	78,629	60,696
Depreciation and amortization	57,418	62,724
Total operating expenses	852,005	829,514
Operating loss	(275,845)	(256,526)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	144,066	156,114
Gifts	30,448	28,042
Nonexchange grants and contracts	39,737	40,913
Investment income	1,106	5,872
Realized and unrealized gain/(loss) on investments	1,177	(2,567)
Interest on capital asset-related debt	(10,996)	(11,956)
Other nonoperating revenues/(expenses)	13,690	(4,411)
Net nonoperating revenues	219,228	212,007
Loss before other revenues, expenses, gains and losses	(56,617)	(44,519)
Capital gifts	7,031	1,761
Net assets transferred from University of Louisville Foundation, Inc.	2,895	6,623
Total other revenues	9,926	8,384
Voluntary separation plan expense	18,001	-
Decrease in net position	(64,692)	(36,135)
NET POSITION		
Net position - beginning of year, as previously reported	769,377	804,502
Adjustment applicable to prior year	-	1,010
Net position - beginning of year, as restated	769,377	805,512
Net position - end of year	$ 704,685	$ 769,377

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012
(In Thousands)

	Unrestricted		Temporarily restricted		Permanently restricted		Totals	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
REVENUES, GAINS AND OTHER SUPPORT								
Gifts	$ 24,487	$ 39,473	$ 3,568	$ 7,068	$ 11,690	$ 9,192	$ 39,745	$ 55,733
Investment income	820	1,334	-	16	-	-	820	1,350
Endowment income	1,824	1,608	4,414	6,825	53	-	6,291	8,433
Net realized and unrealized gain/(loss) on investments	19,323	875	51,644	(5,346)	2,469	(1,451)	73,436	(5,922)
Residence hall income	7,216	6,773	-	-	-	-	7,216	6,773
Real estate income	2,322	2,151	-	-	-	-	2,322	2,151
Actuarial gain/(loss) on annuity and trust obligations	-	-	(1,397)	33	-	-	(1,397)	33
Other revenues	8,484	3,014	-	-	-	-	8,484	3,014
Net assets released from restrictions:								
Satisfaction of program restrictions	33,998	33,812	(33,998)	(33,812)	-	-	-	-
Reclassifications	2,184	1,171	(1,027)	(306)	(1,157)	(865)	-	-
Total revenues, gains and other support	100,658	90,211	23,204	(25,522)	13,055	6,876	136,917	71,565
EXPENSES								
Contributions to various University of Louisville departments	2,895	6,623	-	-	-	-	2,895	6,623
Payments on behalf of the University of Louisville for:								
Instruction	7,145	6,355	-	-	-	-	7,145	6,355
Research	21,511	15,903	-	-	-	-	21,511	15,903
Public service	3,579	4,812	-	-	-	-	3,579	4,812
Academic support	17,215	14,317	-	-	-	-	17,215	14,317
Student services	186	350	-	-	-	-	186	350
Institutional support	16,268	14,323	-	-	-	-	16,268	14,323
Operation and maintenance of plant	2,457	2,337	-	-	-	-	2,457	2,337
Scholarships/fellowships	9,577	8,674	-	-	-	-	9,577	8,674
Interest expense	3,664	3,770	-	-	-	-	3,664	3,770
Residence hall operations, including depreciation	5,151	5,171	-	-	-	-	5,151	5,171
Real estate operations, including depreciation	6,381	6,291	-	-	-	-	6,381	6,291
General and administrative, including fundraising	8,837	9,655	-	-	-	-	8,837	9,655
Total expenses	104,866	98,581	-	-	-	-	104,866	98,581
Net change in assets from operations	(4,208)	(8,370)	23,204	(25,522)	13,055	6,876	32,051	(27,016)
Net assets at beginning of year	164,152	172,522	225,418	250,940	393,560	386,684	783,130	810,146
Net assets at end of year	$ 159,944	$ 164,152	$ 248,622	$ 225,418	$ 406,615	$ 393,560	$ 815,181	$ 783,130

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, 2013 and 2012
(In Thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 195,347	$ 182,032
Clinical services and practice plan	198,762	195,662
Grants and contracts	98,237	107,747
Sales and services of educational departments	4,419	4,049
Payments to suppliers	(130,047)	(126,883)
Payments for utilities	(19,395)	(20,079)
Payments to employees	(421,130)	(409,838)
Payments for benefits	(106,822)	(105,301)
Payments for scholarships and fellowships	(20,250)	(22,268)
Loans issued to students and employees	240	319
Auxiliary enterprises	11,117	10,987
Facilities and administrative cost recoveries	24,011	26,899
Intercollegiate athletics, net	(27,739)	(26,221)
Other receipts	4,306	3,528
Net cash used by operating activities	(188,944)	(179,367)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	144,066	159,034
Gifts	29,815	28,607
Nonexchange grants and contracts	39,209	41,089
Transfers from University of Louisville Foundation, Inc.	2,895	6,541
Other noncapital financing activities	13,353	(4,134)
Net cash provided by noncapital financing activities	229,338	231,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital gifts received	6,098	5,150
Purchases of capital assets	(53,148)	(61,789)
Proceeds from issuance of bonds and notes payables	17,253	55,515
Payments of issuance costs	(82)	(418)
Payment on note payable to University of Louisville Foundation, Inc.	(200)	(305)
Principal paid on bonds and notes payable	(25,119)	(43,239)
Interest paid on bonds and notes payable	(11,018)	(11,692)
Deposits with bond trustee and escrow agent	4,139	2,635
Other capital financing activities - loss on defeasance of bonds	-	(714)
Net cash used by capital and related financing activities	(62,077)	(54,857)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,489	17,726
Purchase of investments	(23,317)	(16,816)
Interest on investments	1,103	5,777
Net cash (used)/provided by investing activities	(6,725)	6,687
Net (decrease)/increase in cash and cash equivalents	(28,408)	3,600
Cash and cash equivalents - beginning of year	176,461	172,861
Cash and cash equivalents - end of year	$ 148,053	$ 176,461

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, 2013 and 2012
(In Thousands)

	2013	2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (275,845)	$ (256,526)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	57,418	62,723
Loss on equipment disposals	582	216
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	7,931	4,835
Inventories	87	53
Other assets	(148)	395
Accounts payable and accrued liabilities	8,507	11,096
Advances	4,790	(3,995)
Deposits	(30)	74
Due from University of Louisville Foundation, Inc.	5,846	4,037
Deferred compensation and wages payable	(441)	(2,195)
Other long-term liabilities	3,471	1,032
Deferred inflows of resources	(1,112)	(1,112)
Net cash used by operating activities	$ (188,944)	$ (179,367)
Non cash transactions:		
Transfer of equipment from the University of Louisville Foundation, Inc.	$ -	$ 82
Capital lease additions	$ 800	$ 2,156
Capital asset additions in accounts payable	$ 7,225	$ 4,549
Capital asset additions in other assets	$ 158	$ -
Gifts of capital assets	$ 82	$ 45
Proceeds from sale of capital assets in accounts receivable	$ -	$ 149
Service concession arrangements	$ 140	$ 5,944

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

Under the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the University reports the University of Louisville Foundation, Inc. and Affiliates (Foundation) as a discretely presented component unit.

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

During the year ended June 30, 2013, the University adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the University's net position or changes in net position and minimal changes to financial reporting disclosures.

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, 2013 and 2012, deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of $6.6 million and $6.9 million, respectively, for the Stadium Project Revenue Bonds, and $8.2 million and $11.5 million for the Educational Building Bonds and Housing System Revenue Bonds. As of June 30, 2012, amounts held with escrow agent total $0.6 million 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. 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 the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities and real estate investments.

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

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

The Foundation invests in various corporate debt, equity, partnerships, marketable alternatives, mutual fund securities, U.S. Government securities, certificates of deposit, land and buildings. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's consolidated statements of financial position.

f. Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was approximately $0.6 million and $0.5 million at June 30, 2013 and 2012, respectively.

g. Inventories

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

h. Capital Assets

Capital assets are stated principally at cost, or estimated 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.

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

Total interest capitalized was (in thousands):

	2013	**2012**
Total interest expense incurred on borrowings for project	$ 2,861	$ 2,659
Interest income from investment of proceeds of borrowings for project	(1,096)	(1,483)
Net interest cost on borrowings for project	$ 1,765	$ 1,176
Interest capitalized	$ 1,535	$ 1,176
Interest charged to expense	10,996	11,956
Total interest incurred	$ 12,531	$ 13,132

Projects with interest subject to capitalization were completed during the fiscal year ended June 30, 2013; therefore, only a portion of the net interest cost on borrowings was capitalized.

i. Deferred Outflows and Inflows of Resources

During the year ended June 30, 2013, the University adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of net position and related disclosures. GASB No. 63 has been applied retrospectively, by reclassifying certain 2012 financial statement line items to conform with the presentation requirements of the standard.

j. Unearned Compensation Expenses

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

k. Advances

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

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

The University receives revenues 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.

l. Compensated Absences

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

m. Net Bond Discount

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

n. Net Position

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

o. Classification of Revenues

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

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

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

p. Student Tuition and Fees

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

q. Clinical Services and Practice Plan Revenue

The University has agreements with third-party payers that provide for payments to the University at amounts different from its established rates. Net clinical services and practice plan revenues are reported at the estimated net realizable amounts from patients, third-party payers and others for the services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

r. Government Grants

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

s. Tax Status

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

t. Use of Estimates

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

u. Change in Accounting Principle

During the year ended June 30, 2013, the University adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of GASB No. 60 is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private partnership.

In July 2008, the University entered into an agreement with Sodexo Operations, LLC (Sodexo), a nongovernmental operator, to provide food service to the students and employees at the University. The initial term of the agreement is for ten years ending June 30, 2019, and Sodexo has agreed to provide a combination of investments and guaranteed contributions over the term of the agreement. Under the standard, the net of the investments and contributions is recorded as a deferred inflow of resources, which is recognized evenly over the term of the agreement.

GASB No. 60 was applied retroactively and increased previously reported beginning net position as of July 1, 2011, by $1.0 million and changes in net position for the year ended June 30, 2012, by $0.9 million.

As of and for the years ended June 30, 2013 and 2012, the University included the following amounts in the statements of net position and the statements of revenues, expenses and changes in net position related to the arrangement:

	2013	2012
Statements of net position		
Loans, accounts and contributions receivable, net - current	$ 385	$ 336
Loans, accounts and contributions receivable, net - noncurrent	$ 2,324	$ 2,619
Capital assets, net	$ 5,575	$ 5,585
Deferred inflows of resources	$ 5,559	$ 6,671
Net investment in capital assets	$ 1,891	$ 1,332
Unrestricted net position	$ 834	$ 537
Statements of revenues, expenses and changes in net position		
Auxiliary enterprises, net - revenue	$ 1,112	$ 1,112
Auxiliary enterprises, net - expenses	$ 105	$ 104
Depreciation and amortization	$ 150	$ 149

v. Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. These reclassifications had no effect on the change in net position.

2. Cash on Deposit and Investments

The University invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the statements of net position. The 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, 2013 and 2012, are as follows (in thousands):

	2013	2012
Deposits	$ 148,053	$ 176,461
Investments		
Variable rate demand notes	5,507	7,390
U.S. Treasury obligations	9,445	14,783
U.S. agencies obligations	-	5,003
Other government obligations	29,680	9,786
Repurchase agreements	5,429	4,229
Investments held with the Foundation	32,710	36,779
Certificates of deposit	697	699
Annuities	-	296
Common stock	2	4
Building	2,226	2,289
	$ 233,749	$ 257,719

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

	2013	2012
Cash and cash equivalents	$ 93,810	$ 110,330
Deposit with bond trustee-current	12,365	12,756
Short-term investments	13,321	2,283
Restricted cash and cash equivalents	54,243	66,131
Deposit with bond trustee-noncurrent	2,509	6,256
Investments held with the Foundation	32,710	36,779
Other long-term investments	24,791	23,184
	$ 233,749	$ 257,719

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in 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, 2013 and 2012, the University had deposits subject to custodial credit risk as follows (in thousands):

June 30, 2013	State Deposits	Overnight Investments	Total
Uninsured and uncollateralized		$ 7,796	$ 7,796
Collateralized with securities held by the Commonwealth in the Commonwealth's name	$ 40,121	-	40,121
Total	$ 40,121	$ 7,796	$ 47,917

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

c. Interest Rate Risk

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

The University has entered into repurchase agreements for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve in exchange for payment from the available reserve. The final maturities under these agreements are March 1, 2028 and April 12, 2027.

As of June 30, 2013 and 2012, the University had investments subject to interest rate risk as follows and on the following page (in thousands):

		Maturities in years			
June 30, 2013	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 9,445	$ 7,935	$ 1,510		
Other government obligations	29,680	12,403	17,277		
Repurchase agreements	5,429	404	1,964	$ 708	$ 2,353
Certificates of deposit	697	697	-	-	-
	$ 45,251	$ 21,439	$ 20,751	$ 708	$ 2,353

June 30, 2012	Fair Value		Maturities in years			
			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

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, 2013 and 2012, the University had the following deposits and investments exposed to credit risk as follows (in thousands):

June 30, 2013	A1 / P1	A3	Not Rated	Total
Variable rate demand notes	$ 5,507			$ 5,507
Common stock	-		$ 2	2
Investments held with the Foundation	-		32,710	32,710
	$ 5,507	$ -	$ 32,712	$ 38,219

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

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, 2013 and 2012, 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, 2013 and 2012, is as follows:

	2013	2012
Investment in partnerships	56%	56%
Marketable alternatives	19%	19%
Preferred and common stock	11%	11%
Mutual funds	9%	10%
Corporate bonds	3%	3%
Equity method investments	1%	0%
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, 2013 and 2012.

3. Loans, Accounts and Contributions Receivable, Net

Loans, accounts and contributions receivable, net as of June 30, 2013 and 2012, are as follows (in thousands):

	2013		
	Gross Receivable	Allowance	Net Receivable
Student tuition and fees	$ 32,877	$ (6,142)	$ 26,735
Patient care	16,678	(6,772)	9,906
Contributions receivable	26,253	(2,110)	24,143
Sponsored agreements	15,390	(2,740)	12,650
Rent from University Medical Center, Inc.	2,951	-	2,951
Trade receivables	1,659	-	1,659
Other	9,122	(2,502)	6,620
Total	$ 104,930	$ (20,266)	84,664
Less discount			(963)
Current portion			44,281
Noncurrent portion			$ 39,420

2012 (Restated)			
	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
University Medical Center, Inc. affiliation agreement	5,500	-	5,500
Sponsored agreements	18,608	(2,588)	16,020
Rent from University Medical Center, Inc.	3,000	-	3,000
Trade receivables	2,910	-	2,910
Other	6,664	(2,522)	4,142
Total	$ 106,942	$ (16,617)	90,325
Less discount			(1,198)
Current portion			53,032
Noncurrent portion			$ 36,095

Contributions receivable consist primarily of charitable gifts totaling $26.3 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, 2013.

Contributions receivable as of June 30, 2013 and 2012, are due to be received as follows (in thousands):

	2013	2012
Less than one year	$ 5,084	$ 4,756
One to three years	8,665	7,348
Greater than three years	12,504	11,662
Subtotal	26,253	23,766
Less discount	(963)	(1,198)
Less allowance	(2,110)	(1,595)
Net contributions receivable	$ 23,180	$ 20,973

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. Due From the Foundation

In accordance with the University's agency agreement with the Foundation, the University receives and disburses monies on behalf of the Foundation. The net amount of these receipts and disbursements is recorded as a due to or from the Foundation in the statements of net position.

Generally, the receivable or payable is cleared within the subsequent month; however, no formal agreement governs the time period in which payments are to be made.

5. Capital Assets, Net

Capital assets as of June 30, 2013 and 2012, are as follows and on the following page (in thousands):

	2013				
	Beginning Balance	Additions	Retire-ments	Transfers	Ending Balance
Cost - Nondepreciable					
Land	$ 45,709	$ 143			$ 45,852
Rare books	41,484	-	$ (5)		41,479
Construction in progress	38,541	36,093	-	$ (34,129)	40,505
Subtotal	125,734	36,236	(5)	(34,129)	127,836
Cost - Depreciable					
Buildings	1,008,348	2,222	(438)	33,778	1,043,910
Infrastructure	10,308	-	-	-	10,308
Land improvements	13,870	14	-	351	14,235
Equipment	193,212	9,514	(11,226)	-	191,500
Leasehold improvements	2,001	-	-	-	2,001
Library materials	175,017	8,702	-	-	183,719
Subtotal	1,402,756	20,452	(11,664)	34,129	1,445,673
Total capital assets-cost	1,528,490	56,688	(11,669)	-	1,573,509
Accumulated depreciation					
Buildings	355,866	32,363	(183)	-	388,046
Infrastructure	2,656	172	-	-	2,828
Land improvements	1,646	382	-	-	2,028
Equipment	147,906	15,834	(10,904)	-	152,836
Leasehold improvements	1,254	59	-	-	1,313
Library materials	133,095	8,554	-	-	141,649
Total accumulated depr.	642,423	57,364	(11,087)	-	688,700
Capital assets, net	$ 886,067	$ (676)	$ (582)	$ -	$ 884,809

	2012 (Restated)				
	Beginning Balance	**Additions**	**Retire-ments**	**Transfers**	**Ending Balance**
Cost - Nondepreciable					
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	7,461		41,907	1,008,348
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	29,756	(7,605)	47,031	1,402,756
Total capital assets-cost	1,469,384	66,626	(7,605)	85	1,528,490
Accumulated depreciation					
Buildings	318,972	36,894	-	-	355,866
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	62,871	(7,388)	3	642,423
Capital assets, net	$ 882,447	$ 3,755	$ (217)	$ 82	$ 886,067

During the fiscal year ended June 30, 2012, the University received capital assets from the Foundation with a net value of $82 thousand.

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	**2012**
Salaries and benefits	$ 50,482	$ 42,911
Payroll taxes	12,913	12,625
Construction	8,164	4,771
Accrued interest	4,061	4,084
Other	19,248	11,814
	$ 94,868	$ 76,205

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

In January 1999, the Association obtained an $8.5 million unsecured, noninterest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the

University and collections are transferred to the Association for the repayment of the loan. During each of the years ended June 30, 2013 and 2012, the Association repaid $0.2 million and $0.3 million, respectively. The outstanding balance was approximately $1.2 million and $1.4 million as of June 30, 2013 and 2012, respectively, of which $0.2 million was shown as current as of June 30, 2013 and 2012, 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, 2013 and 2012.

8. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2013 and 2012 (in thousands):

	Interest Rate	Fiscal Year of Maturity	2013	2012
Consolidated Educational Building Revenue Bonds:				
Series M of 2003	1.50%	2016	$ 8,770	$ 13,450
Series P of 2005	3.5% to 4.0%	2025	3,020	3,215
Housing Systems Revenue Bonds:				
Series E of 2003	3.50%	2014	350	690
Series F of 2004	4.1% to 4.2%	2015	1,855	2,730
General Receipts Bonds:				
Series A of 2007	4.0%	2028	33,615	35,220
Series A of 2008	4.0% to 4.5%	2029	74,105	77,295
Series A of 2010	1.7% to 5.8%	2028	3,845	4,058
Series B of 2010	5.50%	2028	20,942	20,942
Series A of 2011	3.0% to 5.0%	2032	32,700	33,790
Series A of 2012	3.0% to 5.0%	2023	13,315	14,560
Metro Government Revenue Bonds:				
Series 2008 A	3.5% to 5.0%	2018	24,805	29,215
Series 2008 B	3.5% to 4.8%	2028	34,865	36,545
Notes payable	2.4 to 4.8%	2020	18,722	1,794
Energy lease	4.8%	2023	17,149	18,385
Capital lease obligations	1.4% to 4.0%	2017	3,416	6,653
Total long-term debt			291,474	298,542
Net unamortized premium			4,229	4,705
Long-term debt, net			$ 295,703	$ 303,247

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

	2013					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$ 271,710		$ (19,523)	$ 252,187	$ 20,980	$ 231,207
Notes payable	1,794	$ 17,253	(325)	18,722	671	18,051
Energy lease	18,385	-	(1,236)	17,149	1,294	15,855
Capital leases	6,653	800	(4,037)	3,416	1,630	1,786
Total	298,542	18,053	(25,121)	291,474	24,575	266,899
Less unamortized net (discount)/premium	4,705	-	(476)	4,229	498	3,731
Net bonds payable	$ 303,247	$ 18,053	$ (25,597)	$ 295,703	$ 25,073	$ 270,630

	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	(330)	5,146	(111)	4,705	477	4,228
Net bonds payable	$ 290,143	$ 56,452	$ (43,348)	$ 303,247	$ 24,096	$ 279,151

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
2014	$ 24,575	$ 12,168	$ 36,743
2015	23,267	11,430	34,697
2016	22,562	10,639	33,201
2017	20,406	9,836	30,242
2018	30,152	9,012	39,164
2019 - 2023	78,760	33,962	112,722
2024 - 2028	75,857	17,203	93,060
2029 - 2032	15,895	1,130	17,025
Total	$ 291,474	$ 105,380	$ 396,854

The University has capitalized leased equipment with a net book value of $4.5 million and $6.5 million as of June 30, 2013 and 2012, respectively.

Bonds are collateralized by mortgages on certain University properties for the Consolidated Educational Building Revenue Bonds and auxiliary revenues for the Housing System Revenue Bonds. Certain building revenues, tuition and fees are pledged for the Consolidated Educational Building Revenue Bonds and certain auxiliary revenues are pledged for the Housing System Revenue

Bonds. Association revenue is pledged for the payment of the Metro Government Stadium Expansion Bonds, excluding approximately $2.0 million annually, which is to be available for amounts owed by the Association under the Arena lease agreement. The remaining operating and nonoperating income of the University, excluding income which as a condition of receipt is not available for payment of debt service charges, are pledged for the General Receipts Bonds. Total principal and interest remaining on the debt is $366.7 million, with annual requirements ranging from $2.6 million in 2030 to $36.7 million in 2018. For the current year, principal and interest paid by the University and the total pledged revenue recognized were $31.9 million and $480.2 million, respectively

As of June 30, 2013 and 2012, investments at current market value totaling approximately $14.9 million and $19.0 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 were issued to advance refund $13.5 million of Consolidated Educational Buildings Revenue Bonds Series N (Series N) with a weighted average interest rate of 3.9% and $5.3 million of Consolidated Educational Buildings Revenue Bonds Series O (Series O) with a weighted average interest rate of 4.1% (combined, the prior bonds). The bond proceeds together with an issuance premium of $2.5 million and funds from the debt service reserve fund for the prior bonds of $2.8 million have been deposited in escrow and will be used to pay the interest and principal requirements of the prior bonds maturing through and including May 1, 2013, and redeem and retire the prior bonds on May 1, 2013. Final maturity on the 2012 Bonds is March 1, 2023.

The outstanding balance was $13.5 million on the Series N bond and $5.3 million on the Series O bond as of June 30, 2012. There were no debt service requirements on the prior bonds as of June 30, 2013.

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* (BAB), 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.

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

The General Receipts Bonds, 2010 Series B were issued as bonds designated as QECBs under the provisions of the *American Recovery and Reinvestment Act of 2009*. The University expects to receive a cash subsidy payment from the United States Treasury equal to approximately 71.8% of the interest payable on the General Receipts Bonds, 2010 Series B bonds. The subsidy payment is contingent on federal regulations and may be subject to change. On March 1, 2013, the President signed an Executive Order reducing the budgetary authority in accounts subject to sequestration. As a result, the BABs subsidy is expected to be reduced to approximately 65.5%.

Term Loan

In June 2013, the Association entered into a $15.0 million Term Loan with a national banking association. The proceeds will be used to partially finance the renovation of the baseball and softball stadiums and the construction of a soccer stadium (Project). The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the Term Loan is the Daily One Month LIBOR rate plus 1.14 percent, reset on the last day of each month.

9. Derivative Financial Instruments

a. Summary

At June 30, 2013, the Association has the following derivative instruments outstanding (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Term Loan	$ 15,000	06/28/13	06/30/22	Pay 2.9%; receive LIBOR + 1.14%	$ 80
Forward delivery agreement	Earn a higher rate of return than investments with shorter life	$ 1,510	8/5/2008	3/1/2018	Receive 6.4% on balance of scheduled reserve amount	$ 372

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

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

The fair value of the Forward Delivery Agreement is based on the value of the future discounted cash flows expected to be received over the life of the agreement and is included in other long-term assets on the statements of net position. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the statements of net position. For the year ended June 30, 2013, the change in fair value of the Forward Delivery Agreement was approximately $180,000. The Association receives settlement semi-annually and the settlement is included in interest expense.

The fair value of the Interest Rate Swap was determined using proprietary models used by the counterparty banking institution and is included in other long-term assets on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the Association's statements of net position. For the year ended June 30, 2013, the change in fair value of the Interest Rate Swap was approximately $80,000. No initial cash receipt or payment was made in relation to the Interest Rate Swap. The Association receives or pays a net amount monthly and includes the monthly settlement amount in interest expense.

b. Credit Risk

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

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2013. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Association has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2013, the counterparty to the Interest Rate Swap had a credit rating of A3 from Moody's Investors Services.

c. Interest Rate Risk

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

d. Termination Risk

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

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

10. Other Liabilities

Other liabilities of the University consisted of the following at June 30, 2013 and 2012 (in thousands):

	2013					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316			$ 316		$ 316
Note payable to University of Louisville Foundation, Inc.	1,400		$ (200)	1,200	$ 200	1,000
Deferred compensation and wages payable	9,100	$ 3,684	(4,110)	8,674	1,233	7,441
Deposits	811	25	(55)	781	-	781
Advances	57,106	50,130	(44,719)	62,517	57,796	4,721
Amounts due federal government for student loan program	16,849	-	(324)	16,525	-	16,525
Other post-employment benefits	24,045	5,294	(2,039)	27,300	3,624	23,676
Other long-term liabilities	177	18,001	(60)	18,118	7,413	10,705
Total	$ 109,804	$ 77,134	$ (51,507)	$135,431	$ 70,266	$ 65,165

	2012					
	Beginning Balance	Additions	Retire-ments	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville Foundation, Inc.	$ 316			$ 316		$ 316
Note 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 post-employment benefits	22,733	3,175	(1,863)	24,045	3,859	20,186
Other long-term liabilities	36	160	(19)	177	20	157
Total	$ 113,986	$ 57,014	$ (61,196)	$109,804	$ 56,976	$ 52,828

Other long-term liabilities as of June 30, 2013 and 2012, include the voluntary separation incentive liability and other contractual payments. The current portion of other post-employment benefits and other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2013 and 2012.

11. Component Units

a. Blended Component Units – Combined Condensed Statements

The combining schedules of the University, the Research Foundation and the Association as of June 30, 2013 and 2012, are as follows (in thousands):

Condensed Statements of Net Position

	2013			
	University	**Research Foundation**	**Athletic Association**	**Total**
Current assets	$ 83,632	$ 45,052	$ 47,546	$ 176,230
Capital assets	674,805	72,405	137,599	884,809
Other noncurrent assets	89,083	1,161	74,378	164,622
Total assets	847,520	118,618	259,523	1,225,661
Current liabilities	107,515	23,098	48,557	179,170
Due to University	(9,173)	-	9,173	-
Other noncurrent liabilities	245,325	7,979	82,491	335,795
Total liabilities	343,667	31,077	140,221	514,965
Deferred inflows of resources	5,559	-	452	6,011
Net investment in capital assets	460,758	72,406	76,984	610,148
Restricted-nonexpendable	-	-	1,538	1,538
Restricted-expendable	51,556	4,386	27,312	83,254
Unrestricted	(14,020)	10,749	13,016	9,745
Total net position	$ 498,294	$ 87,541	$ 118,850	$ 704,685

	2012			
	University	**Research Foundation**	**Athletic Association**	**Total**
Current assets	$ 83,924	$ 64,965	$ 47,457	$ 196,346
Capital assets	674,048	77,567	134,452	886,067
Other noncurrent assets	113,843	489	65,232	179,564
Total assets	871,815	143,021	247,141	1,261,977
Current liabilities	85,385	22,952	45,061	153,398
Due to University	(9,173)	-	9,173	-
Other noncurrent liabilities	250,112	6,753	75,114	331,979
Total liabilities	326,324	29,705	129,348	485,377
Deferred inflows of resources	6,671	-	552	7,223
Net investment in capital assets	466,677	77,567	67,386	611,630
Restricted-nonexpendable	-	-	1,421	1,421
Restricted-expendable	54,776	4,651	29,301	88,728
Unrestricted	17,367	31,098	19,133	67,598
Total net position	$ 538,820	$ 113,316	$ 117,241	$ 769,377

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

	2013			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 195,627			$ 195,627
Clinical services and practice plan	19,332	$ 173,986		193,318
Grants and contracts	1,835	92,488		94,323
Facilities and administrative cost recoveries	-	24,011		24,011
Other operating revenue	21,569	1,434	$ 45,878	68,881
Total operating revenues	238,363	291,919	45,878	576,160
Depreciation	43,736	9,481	4,201	57,418
Other operating expenses	369,453	348,976	76,158	794,587
Total operating expenses	413,189	358,457	80,359	852,005
Operating loss	(174,826)	(66,538)	(34,481)	(275,845)
State appropriations	144,066	-	-	144,066
Gifts	75	67	30,306	30,448
Interest on capital asset-related debt	(8,271)	-	(2,725)	(10,996)
Other nonoperating revenues	2,535	51,589	1,586	55,710
Capital gifts	249	-	6,782	7,031
Voluntary separation plan expense	(18,001)	-	-	(18,001)
Transfers	13,647	(10,893)	141	2,895
Total nonoperating revenues	134,300	40,763	36,090	211,153
Change in net position	(40,526)	(25,775)	1,609	(64,692)
Net position - beginning of year	538,820	113,316	117,241	769,377
Net position - end of year	$ 498,294	$ 87,541	$ 118,850	$ 704,685

	2012			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	$ 182,902			$ 182,902
Clinical services and practice plan	8,740	$ 181,791		190,531
Grants and contracts	4,298	106,189		110,487
Facilities and administrative cost recoveries	-	26,899		26,899
Other operating revenues	19,277	908	$ 41,984	62,169
Total operating revenues	215,217	315,787	41,984	572,988
Depreciation	48,507	10,091	4,126	62,724
Other operating expenses	346,183	353,077	67,530	766,790
Total operating expenses	394,690	363,168	71,656	829,514
Operating loss	(179,473)	(47,381)	(29,672)	(256,526)
State appropriations	156,114	-	-	156,114
Gifts	34	37	27,971	28,042
Interest on capital asset-related debt	(9,007)	-	(2,949)	(11,956)
Other nonoperating revenues/(expenses)	6,273	35,472	(1,938)	39,807
Capital gifts	176	-	1,585	1,761
Transfers	17,039	(15,447)	5,031	6,623
Total nonoperating revenues	170,629	20,062	29,700	220,391
Change in net position	(8,844)	(27,319)	28	(36,135)
Net position - beginning of year, as previously reported	546,654	140,635	117,213	804,502
Adjustment applicable to prior year	1,010	-	-	1,010
Net position - beginning of year, as restated	547,664	140,635	117,213	805,512
Net position - end of year	$ 538,820	$ 113,316	$ 117,241	$ 769,377

Condensed Statements of Cash Flows

	2013			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (108,346)	$ (52,859)	$ (27,739)	$ (188,944)
Noncapital financing activities	159,330	40,194	29,814	229,338
Capital and related financing activities	(62,887)	(4,412)	5,222	(62,077)
Investing activities	(12,420)	-	5,695	(6,725)
Net (decrease)/increase in cash and cash equivalents	(24,323)	(17,077)	12,992	(28,408)
Cash and cash equivalents, beginning of year	91,023	39,039	46,399	176,461
Cash and cash equivalents, end of year	$ 66,700	$ 21,962	$ 59,391	$ 148,053

	2012			
	University	Research Foundation	Athletic Association	Total
Cash (used)/provided by:				
Operating activities	$ (112,091)	$ (41,055)	$ (26,221)	$ (179,367)
Noncapital financing activities	177,262	20,237	33,638	231,137
Capital and related financing activities	(37,482)	(9,654)	(7,721)	(54,857)
Investing activities	8,979	35	(2,327)	6,687
Net increase/(decrease) in cash and cash equivalents	36,668	(30,437)	(2,631)	3,600
Cash and cash equivalents, beginning of year	54,355	69,476	49,030	172,861
Cash and cash equivalents, end of year	$ 91,023	$ 39,039	$ 46,399	$ 176,461

b. University of Louisville Foundation, Inc. and Affiliates

The University of Louisville Foundation, Inc. (ULF) and Affiliates (collectively, “Foundation”) is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The fifteen-member board of the Foundation is self-perpetuating. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests 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, 2013 and 2012 were $77.9 million and $67.1 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), and in October 2012, ULDC became a 51% owner of Campus Two, LLC (Campus Two). These investments are 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, 2013, 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.

LMCDC is a non-stock, non-profit corporation purchased in October 2008. Its purpose is to hold and administer tax incremental financing (TIF) for the Louisville Life and Health Sciences Signature TIF project and in promotion and development of joint medical or medical related projects.

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. <u>Endowments</u>

   The Foundation's endowment consists of approximately 1,400 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, 2013 and 2012, was (in thousands):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 48	$ 221,809	$ 406,615	$ 628,472
Board-designated endowment funds	113,302	-	-	113,302
	$ 113,350	$ 221,809	$ 406,615	$ 741,774

	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

Changes in endowment net assets for the years ended June 30, 2013 and 2012, were (in thousands):

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 117,270	$ 193,071	$ 393,560	$ 703,901
Investment return:				
Investment and endowment income	3,425	4,389	53	7,867
Net appreciation	15,972	49,449	2,469	67,890
Total investment return	19,397	53,838	2,522	75,757
Contributions	17	3,386	11,690	15,093
Appropriation of endowment assets for expenditures	(24,771)	(28,235)	-	(53,006)
Other changes	1,437	(251)	(1,157)	29
Endowment net assets, end of year	$ 113,350	$ 221,809	$ 406,615	$ 741,774

	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 depreciation	(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

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2013 and 2012, consisted of (in thousands):

	2013	2012
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UMIFA	$ 406,615	$ 393,560
Termporarily restricted net assets - term endowment funds	$ 11,629	$ 10,899

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 $3.2 million and $6.1 million at June 30, 2013 and 2012, 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 years ended June 30, 2013 and 2012, the Foundation Board of Directors approved a 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 10.8% and -0.8% in 2013 and 2012, respectively.

The amount available for spending under the policy was approximately $35.5 million and $35.4 million for the years ended June 30, 2013 and 2012, respectively, of which approximately $35.2 million and $32.1 million, respectively, 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, 2013 and 2012, are as follows (in thousands):

	2013	**2012**
Investment in partnerships and funds of funds	$ 415,716	$ 414,418
Mutual funds	59,094	68,273
Marketable alternatives	143,907	138,108
Preferred and common stock	81,746	78,064
Corporate bonds	23,010	23,636
U.S. government securities	187	181
Equity method investments	5,481	4,795
Certificate of deposit	8,016	7,000
Land and buildings	1,289	1,352
Annuities	-	605
Total investments	$ 738,446	$ 736,432

Restricted investments are restricted by bond indenture for payment of debt service, and repairs and replacement. Restricted investments as of June 30, 2013 and 2012, are as follows (in thousands):

	2013	**2012**
Money market mutual funds	$ 2,914	$ 2,289
U.S. agency obligations	2,559	1,681
Guaranteed investment contract	-	955
	$ 5,473	$ 4,925

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

	2013	**2012**
Interest income	$ 820	$ 1,350
Endowment income	6,291	8,433
Net realized and unrealized	-	-
gain (loss) on investments	73,436	(5,922)
	$ 80,547	$ 3,861

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 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):

	2013			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Fixed income funds (A)	$ 30,670		Various from once monthly to illiquid	Various from 10 to 30 days, if allowable
U.S. equity funds (B)	82,440		Various from semi-monthly to quarterly	Various from 5 to 60 days
International equities funds (C)	189,253		Various from any valuation day to quarterly	Various from 10 to 60 days
Equity long/short hedge funds (D)	61,602		Various from quarterly to illiquid	Various from 30 to 60 days, if allowable
Multi-strategy hedge funds (E)	75,753		Various from monthly to illiquid	Various from 15 to 90 days, if allowable
Natural resources funds (F)	28,306	$ 11,010	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	31,194	2,475	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	59,941	47,411	Illiquid	N/A

	2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed income funds (A)	$ 35,951		Various from once monthly 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)	38,113	2,475	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	51,047	30,853	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. Approximately $29.4 million of the amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days. The remaining $1.2 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 $74.9 million on June 30, 2013, 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 55% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 40% of the funds invested can be redeemed monthly with 15 to 60 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 appropriate by the respective manager. Investments representing 81% of the value of the investments in this category have quarterly lockup periods as of June 30, 2013. Another investment, totaling $2.5 million is illiquid. The remaining investments in this category can be redeemed every 12 months with 45 days' notice.

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 16% of the value of this category can only be redeemed annually on its anniversary, with prior notification of at least 45 days, due to agreements with the management of the funds. Of the investments in this category, 34% can be redeemed at calendar year quarter ends with prior notification of 45 to 60 days. Approximately 36% of the investments in this category can be redeemed every 12 months with prior notification of 45 to 60 days. Another 13% of investments in this category can be redeemed monthly with 15 days notification. The remainder of the investment is illiquid.

F. This category includes a multi-strategy natural resources fund of funds, private oil and gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals, and agricultural commodities. The funds typically invest in both the infrastructure and production facilities as well as in the actual metal, commodity or resource. Approximately 22% of the investments are private lock up funds with projected partnership maturities ranging from 2018 to 2025. 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 $6.1 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 $5.3 million is available at calendar quarters with advance notice of 45 days. All remaining investments in this class can be redeemed on their respective annual anniversaries of investment with 90 days prior notice.

H. This category includes several funds that invest in private equity of U.S. companies, international companies and U.S. real estate. Also included are several funds focusing on U.S. venture capital opportunities. One fund specializes in mezzanine debt for mid-cap U.S. companies. Approximately $21.7 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, 2013 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2013 are $47.5 million, which is expected to be drawn over the next 5 years.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs 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 and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified as Level 3 of the fair value hierarchy, the process used to develop the reported fair value is disclosed below.

There have been no significant changes in the valuation techniques during the year ended June 30, 2013

a. Money Market Mutual Funds

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

b. Investments

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

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

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

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

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2013 and 2012. 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.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012 (in thousands):

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

	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 accounts	2,289	2,289	-	-
U.S. agency obligations	1,681	-	1,681	-

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, 2012	$ 183,995	$ 129,469	$ 2,104
Total realized and unrealized gains and losses	19,609	10,575	(916)
Purchases	59,603	2,000	837
Sales	(41,252)	(16,786)	-
Transfers	41,899	(40,417)	-
Settlements	(32,096)	-	-
Balance, June 30, 2013	$ 231,758	$ 84,841	$ 2,025
Total gains/(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	$ 14,999	$ 10,487	$ (907)

	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 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)

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

Realized and unrealized gains and losses included in change in net assets for the years ended June 30, 2013 and 2012, are reported in the consolidated statements of activities as follows (in thousands):

	2013	2012
Total gains	$ 29,268	$ 9,530
Change in unrealized gains or losses relating to assets still held at the consolidated statement of financial position date	$ 24,579	$ 2,695

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2013.

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

Fair Value of Financial Instruments

The following table presents estimated fair values of the Foundation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2013 and 2012.

	2013		**2012**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 27,303	$ 27,303	$ 9,643	$ 9,643
Loans receivable from the Association	1,516	1,516	1,716	1,716
Convertible notes	2,174	2,174	1,546	1,546
Contributions receivable	21,812	21,812	29,173	29,173
Financial liabilities				
Notes payable	53,187	53,187	42,392	42,392
Bonds payable	47,394	48,706	48,862	48,862
Funds held in trust for others	42,685	42,685	46,399	46,399
Annuities and unitrusts	4,899	4,899	4,267	4,267

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 from the Association:
The carrying amount approximates fair value.

Convertible Notes:
Carrying amount is a reasonable estimate of 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.

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, 2013 and 2012 (in thousands):

	Description	Fiscal Year of Maturity	2013	2012
Series 2005A (non taxable)	Principal payments of $270 to $1,010 are due annually beginning 6/1/16 through maturity, and interest is due monthly at fixed rates from 4% to 5%.	2035	$ 13,815	$ 13,815
Series 2005B (taxable)	Principal payments of $170 to $390 are due annually through maturity, and interest is due monthly at a fixed rate of 4.91%.	2016	900	1,190
Series 2009A (non taxable)	Principal payments of $410 to $900 are due annually through maturity, and interest is due semi-annually at fixed rates from 2.5% to 4.5%.	2033	12,645	13,015
Series 2010A (non taxable)	Principal payments of $810 to $2,815 are due annually beginning 10/1/10 through maturity, and interest is due semi-annually at a fixed rates from 2.5% to 4.4%	2030	19,690	20,475
Note Payable - AAF	Variable rate, 1.90% as of June 30, 2013, with principal payment at end of note	2014	8,192	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, 2013, with principal and interest payments due monthly	2020	1,532	1,726
Line of Credit - Nucleus	Variable rate, 1.77% as of June 30, 2013 - unsecured	2013	4,120	4,120
Line of Credit - ULF	Variable rate, 0.87% as of June 30, 2013, with interest payments due monthly, matures October 31, 2013	2014	19,843	8,854
Total bonds and notes payable			100,237	90,887
Plus unamortized premium			344	367
Bonds and notes payable, net			$ 100,581	$ 91,254

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, 2013 and 2012 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. The principal is due in full in November 2013.

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 January 15, 2014. 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, 2013 and 2012.

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

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 October 2013. The note is secured by a mortgage on the property.

As of June 30, 2013 and 2012, approximately $11.2 million and $22.1 million were unused and available on the line of credit.

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

Principal payments on the above obligations, adjusted for September 2013 activity, due in the next five years and thereafter are as follows (in thousands):

For the Year Ended June 30,	**Principal Due**
2014	$ 29,460
2015	2,386
2016	2,491
2017	2,806
2018	2,907
Thereafter	73,684
	$ 113,734

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	$ 19,690	$ 2,938
Kurz Hall	12,645	955
Community Park	14,715	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, 2013 and 2012, 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 May 2013, ULF guaranteed $7.5 million of the University of Louisville Physicians, Inc. (ULP) $26.5 million line of credit maturing on June 30, 2014. As of June 30, 2013, the principal amount outstanding was approximately $12 million.

c. Loans

As of June 30, 2013, ULF guaranteed four loans related to student organizations. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection of expenses and costs. The total amount approved for loans was approximately $1.6 million, with $982,000 and $1.0 million outstanding, as of June 30, 2013 and 2012, respectively.

In December 2010, ULF guaranteed 51% of the outstanding loans of Campus One, LLC. As of June 30, 2013 and 2012, the amount under guarantee was \$5.0 million and \$4.4 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, 2013 and 2012, the total amount outstanding on the Mortgage Revenue Bonds was \$59.7 million and \$65.8 million, respectively

e. Lease Guarantee

In December 2006, the Foundation became the guarantor of payments due to University Faculty Office Building, LLC (UFOB) under the Master Lease agreement between the Medical School Practice Association, Inc. (MSPA) and UFOB. The Foundation has guaranteed the full and prompt payment of all amounts due to UFOB including any damages for default and payments to reimburse UFOB for any costs and expenses incurred by UFOB to cure any default by MSPA. The initial lease term is 15 years, 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 \$19.0 million and \$17.9 million as of June 30, 2013 and 2012, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$27.8 million and \$25.8 million as of June 30, 2013 and 2012, respectively. These funds are invested in various equities and income producing assets. For the years ended June 30, 2013 and 2012, the Foundation received income of approximately \$2.2 million and \$1.9 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, 2013 and 2012, the Foundation held approximately $32.7 million and $36.8 million for the Association's investment purposes, respectively.

During the year ended June 30, 2005, the Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing healthcare services. As of June 30, 2013 and 2012, the Foundation held approximately $9.7 million and $9.4 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, 2013 and 2012, the Foundation held approximately $0.2 million for the benefit of the Louisville Orchestra.

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

8. Subsequent Event

On August 28, 2013, the Foundation closed a $37.6 million taxable fixed rate bond offering. Principal payments ranging from $500,000 to $1.0 million are due annually beginning 2015 through 2043, and interest is due semi-annually at a fixed rate ranging from 0.9% to 5.6%.

$31.0 million of the proceeds were used for the Nucleus Innovation Center Project, of which $19.8 million was used to pay off the ULF construction line of credit. $4.1 million was used to pay off the Nucleus line of credit and $1.9 million was retained in a capitalized interest fund. The remaining proceeds were used for costs of issuance, underwriter's discount, and reserve balance funding for the Nucleus Innovation Center Project.

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

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

Although the joint venture is owned 50% by Owensboro Medical Health System, Inc. and 50% by the University, the University has control of the Board of Directors of the Center. The University has determined that if the financial activity of the Center was material, it should be a discretely presented component unit; however, as of June 30, 2013 and 2012 the Center does not have material operations to be presented.

12. Risk Management

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

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between $250 and $300,000 per occurrence. Losses in excess of $300,000 are insured by commercial carriers up to $200 million per occurrence on an actual cash value basis. As a state agency, the University is vested with Sovereign Immunity and is subject to the provisions of the Board of Claims Act, under which the University's liability for certain negligence claims is limited to $200,000 for any one person and $350,000 for multiple claims resulting from a single act of negligence. Claims against educators' errors and omissions and wrongful acts are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2012 to 2013. 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, 2013 and 2012, respectively, was approximately $54.0 million and $50.3 million, including $4.5 million and $4.4 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

13. Natural Classification

The University's operating expenses by natural classification were as follows for the years ended June 30, 2013 and 2012 (in thousands):

	2013	2012
Salaries and wages	$ 451,551	$ 441,868
Employee benefits	116,598	112,037
Utilities	20,007	20,984
Scholarships and fellowships	32,826	33,854
Depreciation	57,418	62,724
Supplies and other services	173,605	158,047
	$ 852,005	$ 829,514

14. Retirement Plans

a. Defined Contribution Plan

Permanent, full-time University employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. This plan was established by the University and approved by the Board of Trustees. Eligible employees not contributing to the plan are entitled to a 7.5% of base salary contribution on their behalf by the

University. The University contributes 7.5% of base salary for all eligible employees. The University also matches up to an additional 2.5% of employee contributions. The plan requires three years of continuous service for employees to vest in employer contributions.

Other information relating to this plan for the years ended June 30, 2013 and 2012 is presented as follows (in thousands):

	2013	2012
Total University payroll	$ 456,860	$ 447,317
Total payroll covered by the plan	436,894	432,358
Employee contributions	22,320	22,125
University contributions	32,949	32,197

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, 2013 and June 30, 2012. 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, 2013 and 2012 follow (in thousands):

	2013	2012
Actuarial present value of non-vested accumulated plan benefits	$ 1,747	$ 1,974
Net assets available for benefits	$ 2,109	$ 2,301
Net pension surplus	$ (362)	$ (327)
Funded ratio	121%	117%

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, 2013 and 2012, 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, 2013 and 2012, the University contributed approximately $1.0 million and $0.8 million, approximately 56% and 50% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million, approximately 44% and 50% of total premiums for the years ended June 30, 2013 and 2012, respectively, through their required monthly contributions according to the schedules below.

2013

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

2012

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

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For each of the years ended June 30, 2013 and 2012, the University contributed $1.2 million 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 (UAAL) over a period not to exceed thirty years.

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

	2013	2012
Normal cost	$ 4,190	$ 5,068
AAL amortization	4,693	4,313
Annual required contribution (ARC)	8,883	9,381
Interest on above	717	759
Adjustment to ARC	(880)	(886)
OPEB liability gain	(3,244)	(5,917)
Annual OPEB cost (AOC)	5,476	3,337
Contributions made	(2,221)	(2,025)
Increase in net OPEB obligation	3,255	1,312
Net OPEB obligation - beginning of year	24,045	22,733
Net OPEB obligation - end of year	$ 27,300	$ 24,045

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
2013	$ 5,476	41%	$ 27,300
2012	3,337	61%	24,045
2011	(6,087)	-27%	22,733

d. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 0% funded. The actuarial accrued liability for benefits was $82.3 million and $79.9 million and there were no assets, resulting in an UAAL of $82.3 million and $79.9 million as of June 30, 2013 and 2012, respectively. The covered payroll (annual payroll of active employees covered by the Plan) was $426.8 million and $416.0 million, and the ratio of the UAAL to the covered payroll was 19%, for each of the years ended June 30, 2013 and 2012.

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, 2012, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3 percent investment rate of return (net of administrative expenses), which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after 8 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2013 and 2012 were due to updates made on expected future health claims and changes made to the retiree life insurance benefit. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2013 was 24 years.

16. Health Science Center Affiliations and Agreements

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

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

The agreement calls for, among other things, a strategic programmatic investment fund and plan. KentuckyOne will invest $95.0 million in key University clinical service lines and departments and $40.0 million in academic and programmatic investment in clinical services lines at Jewish Hospital and St. Mary's Healthcare, Inc. (Jewish Hospital) facilities. An additional $3.0 million per annum for twenty years will be made available for research.

The agreement also calls for, among other things, KentuckyOne to provide funding (salary, benefits and malpractice coverage) for certain full-time equivalent resident positions over the term of the affiliation agreement. Annually, KentuckyOne determines the number of resident positions it will fund based upon (a) staffing at comparable academic medical centers, (b) the services provided by the Hospital and (c) the clinical load at the Hospital and related facilities. Funding levels for the years ended June 30, 2013 and 2012 were $41.5 million and $40.0 million, respectively, and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net position.

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

Concurrently with the academic affiliation agreement and joint operating agreements, the Commonwealth and the University as lessor amended and restated the lease agreement with UMC to lease the Hospital. The annual lease payment is $6.5 million through December 31, 2016. At that time, the annual rent escalates by $500,000 and will continue to escalate every five years thereafter up to $8.0 million. Included in the joint operating agreement is a provision that $5.0 million of the annual rent payment will flow to the Quality and Charity Care Trust. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was $1.5 million and $0.7 million for the years ended June 30, 2013 and 2012, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position.

The accompanying statements of net position as of June 30, 2013 and 2012 each include approximately $3.0 million, in accounts receivable representing amounts due from UMC pursuant to the lease agreement.

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

Prior to March 1, 2013, the affiliation agreement called for, among other things, UMC to pay the University its annual Surplus Cash Flow calculated in a statement of cash flows prepared by UMC in accordance with accounting principles generally accepted in the United States of America. Revenues reflected in the accompanying financial statements relative to this item was approximately $12.8 million and $5.5 million for the fiscal years ended June 30, 2013 and 2012, and are included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. 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 accompanying statement of net position as of June 30, 2012 include approximately $5.5 million in accounts receivable representing amounts due from UMC pursuant to the Surplus Cash Flow payments.

The agreement also called 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 determined the number of resident positions it funded 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 were approximately $40.0 million and are included in clinical services and practice plan revenues in the statement of revenues, expenses and changes in net position.

b. University of Louisville Physicians Inc.

During the fiscal year ended June 30, 2013, most existing practice groups became subsidiary entities to ULP, which was established to integrate the faculty practice arrangement for clinical services. In March 2013, ULP reached an agreement with MSPA, doing business as University Physician Associates to acquire substantially all the assets of MSPA and assume the remaining liability to Passport. At the same time certain funding from the Medicaid HMO, Passport Health Plan (safety net funding) was transferred to ULP.

UMC, ULP, and MSPA are legally distinct organizations with separate governing bodies. Their financial statements are not included with those of the University.

c. Quality and Charity Care Trust Transfers for Hospital Operations

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

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

The University and the Commonwealth selected UMC, a Kentucky non-profit corporation, as the provider of the healthcare services through the Hospital. Under the November 2012 joint operating agreement, KentuckyOne agreed to manage the Hospital in a manner consistent with the Revised Quality and Charity Care Trust Agreement. Funding of $29.6 million and $24.7 million for the years ended June 30, 2013 and 2012, respectively, provided by the Commonwealth and Louisville Metro Government is held for the Trust by the University and paid to UMC as specified in the Trust agreement. This funding is not included in the statements of revenues, expenses and changes in net position as it is a pass-through to UMC.

d. Cardiovascular Innovation Institute

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

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

17. Leases

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

a. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building. The University's rights under this agreement have been assigned to the Association. The lease has an initial term of 26 years, ending June 30, 2023. Annual lease payments range from $25,000 to $66,550. Total lease expense for each of the years ended June 30, 2013 and 2012 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, ending September 30, 2026. Annual lease payments started at approximately $47,000, and are subject to increases based on increases in the CPI. Total lease expenses during the years ended June 30, 2013 and 2012 amounted to approximately $83,000 and $82,000, 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, 2013 and 2012 amounted to approximately $3.4 million and $3.0 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during each of the years ended June 30, 2013 and 2012 amounted to approximately $0.5 million and $0.7 million, respectively.

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, 2013 and 2012 amounted to approximately $2.1 million and $2.3 million, respectively.

d. Future Minimum Lease Payments

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

For the year ending June 30,	Lease Payment Due
2014	$ 3,409
2015	654
2016	624
2017	624
2018	619
2019-2023	2,257
2024-2028	1,696
2029-2033	1,425
2034-2038	1,425
2039-2043	1,425
2044-2048	285
Future minimum lease payments	$ 14,443

18. Commitments and Contingencies

a. Commitments

At June 30, 2013, the University had approximately $56.6 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.

19. Recent Accounting Pronouncements

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. With the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt, but instead will be recognized as an expense in the period incurred. Accounting changes to comply with the standard will be applied retroactively by restating financial statements for all periods presented. The adoption of GASB No. 65 will require classification of certain items and a change in the recognition of items previously reported as assets and liabilities, beginning with the fiscal year ending June 30, 2014.

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

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)
7/1/2012	$ -	$ 82,260	$ 82,260	0%	426,752	19%
7/1/2011	-	79,912	79,912	0%	416,016	19%
7/1/2010	-	79,892	79,892	0%	400,911	20%