

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

**Auditor's Report and Financial Statements
June 30, 2014 and 2013**

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the University of Louisville and Affiliated Corporations (University) and its aggregate discretely presented component units, collectively a component unit of the Commonwealth of Kentucky as of and for the years ended June 30, 2014 and 2013, and the related notes to the basic financial statements, which collectively comprise the University's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the University of Louisville Physicians, Inc. (ULP), a discretely presented component unit of the University, which financial statements reflect total assets of \$36,981 and \$26,732 as of June 30, 2014 and 2013, and total revenues, gains and other support of \$135,962 and \$102,195 for the years then ended (in thousands). Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for ULP, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The consolidated financial statements of the University of Louisville Foundation, Inc. and Affiliates, and the financial statements of ULP, discretely presented component units of the University, 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 opinions.

Opinions

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component units as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2014 the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which changed its method of accounting for debt issuance costs and the reporting of deferred losses from the refunding of debt to deferred outflows of resources, all of which have been applied retrospectively. Our opinions are not modified with respect to this matter.

Also as discussed in Note 1 to the financial statements, in 2014 the University changed its reporting entity to include ULP as a discretely presented component unit in accordance with GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. Our opinions are not modified with respect to this matter.

As discussed in Note 18 to the financial statements, the 2013 financial statements have been restated to correct a misstatement. Our opinions are not modified with respect to this matter.

Other 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 GASB, 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 September 29, 2014, 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* in considering the University's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
September 29, 2014

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville and Affiliated Corporations (the University) for the years ended June 30, 2014, 2013 and 2012. 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 metropolitan research university located in the Commonwealth of Kentucky's (Commonwealth) largest city. 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 2013 enrollment of 22,529 students and 6,737 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 Development Company. 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 2013-2014, 2012-2013 and 2011-2012 academic years, the University conferred 4,815, 4,825 and 4,897 degrees, respectively, consisting of:

	<u>2014*</u>	<u>2013</u>	<u>2012</u>
Baccalaureate	2,821	2,731	2,702
Masters/Specialist	1,242	1,379	1,439
First Professional	394	375	361
Certificate	36	24	28
Doctorate	162	140	188
Associate	19	28	11
Post Baccalaureate	136	141	163
Post Masters	5	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. Toward that end, the University embarked on its 21st Century Initiative last year. Following in the steps of the 2020 Plan, the 21st Century Initiative is a process that is examining the University’s academic and research priorities and how the University can change its structures and culture to best support its work.

The University has made enormous strides in its efforts to become a nationally recognized metropolitan teaching and research university since the Commonwealth passed House Bill 1 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 25.2 in the Fall of 2013, and the number of endowed chairs to 156 for fiscal year 2014.

The University completed a new state of the art student sports and recreation center on the west side of Belknap campus. The 128,000 square foot facility is 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, 2014, with total assets and deferred outflows of resources of \$1.2 billion that exceed total liabilities and deferred inflows of resources of \$506.6 million by a ratio of over 2:1, consistent with the ratio as of June 30, 2013. Net position, which represents the residual interest in the University’s assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was \$693.8 million as of June 30, 2014.
- Gross tuition and fees were \$281.9 million for the year ended June 30, 2014, an increase of \$17.2 million, or 6% compared to the \$264.7 million reported in the previous year. Approved tuition rate increases for 2013-14 generated approximately \$9.0 million in additional tuition revenues in addition to enrollment increases and other fee increases, which contributed approximately \$8.2 million.
- Total general fund appropriations from the Commonwealth were \$147.3 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 \$629.4 million and operating expenses were \$870.7 million resulting in a net operating loss of \$241.3 million. When adjusted for \$147.3 million in state appropriations and \$92.1 million in other net nonoperating revenues, net position of the University decreased by \$1.9 million for the year ended June 30, 2014.
- During the year ended June 30, 2014, the University adopted GASB No. 65 *Items Previously Reported as Assets and Liabilities*. This standard was applied retroactively and prior statements were restated related to the requirement that debt issuance costs be recognized as an expense in the period

incurred and reclassification of loss on refunding as a deferred outflow of resources previously classified as liabilities.

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.

Statements of Net Position

The statements of net position present the financial position of the University at the end of the fiscal year and include all assets, liabilities, deferred outflows of resources and deferred inflows of resources of the University. Net position, the difference between total assets, total liabilities, total deferred outflows of resources 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, deferred outflows of resources and deferred inflows of resources are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less accumulated depreciation. The University's assets, liabilities, deferred outflows of resources, deferred inflows of resources and net position at June 30, 2014, 2013 and 2012 are summarized on the following page:

Condensed Statements of Net Position
June 30, 2014, 2013, and 2012
(In Thousands)

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>	<u>2014 - 2013 Change</u>	<u>Restated 2013 - 2012 Change</u>
ASSETS					
Current assets	\$ 194,306	\$ 182,293	\$ 204,273	\$ 12,013	\$ (21,980)
Long-term investments	54,718	57,501	59,963	(2,783)	(2,462)
Capital assets, net	876,058	871,587	874,949	4,471	(3,362)
Other	74,340	105,252	117,523	(30,912)	(12,271)
Total assets	<u>1,199,422</u>	<u>1,216,633</u>	<u>1,256,708</u>	<u>(17,211)</u>	<u>(40,075)</u>
DEFERRED OUTFLOWS OF RESOURCES					
	<u>957</u>	<u>1,124</u>	<u>1,270</u>	<u>(167)</u>	<u>(146)</u>
LIABILITIES					
Current liabilities	179,620	179,360	153,545	260	25,815
Noncurrent liabilities	322,071	336,729	333,102	(14,658)	3,627
Total liabilities	<u>501,691</u>	<u>516,089</u>	<u>486,647</u>	<u>(14,398)</u>	<u>29,442</u>
DEFERRED INFLOWS OF RESOURCES					
	<u>4,881</u>	<u>6,011</u>	<u>7,223</u>	<u>(1,130)</u>	<u>(1,212)</u>
NET POSITION					
Net investment in capital assets	611,785	594,840	598,218	16,945	(3,378)
Restricted-nonexpendable	1,656	1,538	1,421	118	117
Restricted-expendable	74,077	83,255	88,728	(9,178)	(5,473)
Unrestricted	6,289	16,024	75,741	(9,735)	(59,717)
Total net position	<u>\$ 693,807</u>	<u>\$ 695,657</u>	<u>\$ 764,108</u>	<u>\$ (1,850)</u>	<u>\$ (68,451)</u>

Assets

Current assets amounting to \$194.3 million consist primarily of cash of \$75.9 million; loans, accounts and contributions receivable, net of \$75.5 million; due from the Foundation of \$15.5 million; short-term investments of \$8.9 million and deposit with bond trustee and escrow agent of \$8.8 million.

Current assets increased \$12.0 million, reflecting the increase in loans, accounts and contributions receivable, net of \$25.0 million and due from the Foundation of \$12.4 million offset by the decrease in cash and cash equivalents of \$17.9 million. The increase in accounts receivable is primarily related to a \$15.1 million increase in patient care receivables, net of discount and allowance resulting from additional Medicaid patients and other contractual agreements. Due from the Foundation increases and decreases as amounts are disbursed by the University on behalf of the Foundation and is subsequently reimbursed. During fiscal year 2014, the University approved the loan of \$29.0 million to the Foundation in order to complete certain real estate purchases. The loan is due in June 2015 and includes a provision for the payment of interest. As of June 30, 2014, \$5.8 million is included in the due from the Foundation. Cash decreased as payments to employees and suppliers surpassed the receipts from students, clinical services, grants and contracts.

Noncurrent assets total \$1.0 billion including capital assets, net of accumulated depreciation of \$876.1 million, represents 73% of total assets. Other noncurrent long-term investments total \$54.7 million, noncurrent loans, accounts and contributions receivable were \$41.7 million and restricted cash and cash equivalents were \$19.8 million.

Noncurrent assets decreased \$29.2 million, including a decrease of \$34.4 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 and a project to construct a soccer stadium. The decrease was partially offset by an increase in capital assets, net totaling \$4.5 million.

Deferred Outflows of Resources

In addition to assets the University reports deferred outflows of resources, which represent a consumption of net assets applicable to a future period. The University reports as deferred outflows of resources the loss on refunding of the Consolidated Educational Building Revenue Bonds Series N and Series O by the issuance of General Receipts 2012 Series A and the loss on refunding the County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997 by the issuance of Metro Government Revenue Refunding and Improvement Bonds, Series 2008A. The decrease of \$0.2 million relates to its recognition as expense.

Liabilities

As of June 30, 2014, the University's \$501.7 million in total liabilities consist of \$179.6 million in current liabilities and \$322.1 million in noncurrent liabilities. Accounts payable and accrued liabilities of \$91.7 million and advances of \$64.6 million comprise 87% of total current liabilities. The \$0.3 million increase in current liabilities relates primarily to the \$6.8 million increase in advances. Offsetting this accounts payable and accrued liabilities decreased \$3.2 million. Advances increased related to the receipt of \$8.3 million from KentuckyOne Health under the academic affiliation agreement expected to be recognized as revenue in the next year. Accounts payable and accrued liabilities decreased for the payment totaling \$2.5 million and the reclassification to other long-term liabilities totaling \$3.5 million of conference realignment fees owed, partially offset by an increase in the amount of refund due to University of Louisville Physicians, Inc. (ULP).

Noncurrent liabilities consist chiefly of \$248.4 million in bonds and notes payable. This represents the portion of bonds, notes, and leases payable due in excess of one year. The \$14.7 million decrease in noncurrent liabilities relates primarily to the \$23.1 million decrease in bonds and notes payable, offset by the \$10.4 million increase in advances. Bonds and notes payable decreased for principal maturities during the year. Partially offsetting the decrease is the receipt of an advance of \$10.5 million from Kentucky One Health under the academic affiliation agreement.

Deferred Inflows of Resources

In addition to 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 fair market value of the forward delivery agreement and the interest rate swap entered into as part of the term loan received in June 2013 decreased \$68 thousand and \$103 thousand respectively. Because of the decline in value, the interest rate swap totaling \$23 thousand has been reclassified as a deferred outflow of resources

The net of the investments and contributions provided by agreement with the University's food service provider totaling \$4.6 million and \$5.6 million for June 30, 2014 and 2013, respectively, are recorded as 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, 2014 was \$693.8 million. A review of the University's statements of net position at June 30, 2014 and 2013 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. In total, net position is similar to the prior year, decreasing \$1.9 million, as the University continues to find more revenue sources and lower expenses through efficiencies.

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 - \$611.8 million

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

Restricted-nonexpendable Net Position - \$1.7 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 - \$74.0 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 including related deferred outflows of resources reduced by related deferred inflows of resources and the outstanding balance of any related liabilities. The University's most significant net position in this category as of June 30, 2014 consists of amounts restricted for capital projects of \$27.0 million, public service of \$17.0 million and debt service of \$16.1 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 public service relate primarily to the funds received under the agreement with KentuckyOne Health. The net position remains restricted until a contract is completed or the restrictions are otherwise expired.

Unrestricted Net Position - \$6.3 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 \$63.6 million in 2014. Capital additions consisted mainly of \$43.4 million in additions to construction in progress, \$8.7 million in additions to buildings, \$7.0 million in investments in equipment including information technology, and \$3.9 million in investment in library materials. Construction in progress additions includes \$16.0 million for the Dr. Mark & Cindy Lynn Soccer Stadium, \$8.0 million for Belknap Science and Engineering Park Road and \$6.8 million to establish an addition to the Center for Predictive Medicine.

Prior Year Discussion

Current assets amounting to \$182.3 million consist primarily of cash of \$93.8 million; loans, accounts and contributions receivable, net of \$50.6 million; short-term investments of \$13.3 million and deposit with bond trustee and escrow agent of \$12.4 million.

Current assets decreased \$22.0 million, reflecting decreases in cash and cash equivalents of \$16.5 million, loans, accounts and contributions receivable, net of \$10.6 million and due from the Foundation of \$6.0 million. Cash decreased for decreased funding from clinical units. The decrease in loans accounts and contributions receivable, net is related to the accounts receivable from the hospital affiliation agreement. Partially offsetting these decreases, short-term investment increased \$11.0 million.

Noncurrent assets total \$1.0 billion and include capital assets, net of accumulated depreciation of \$871.6 million, which represents 72% of total assets. Noncurrent assets decreased \$18.1 million, including a decrease of \$11.9 million in restricted cash and cash equivalents, as funds were used in construction projects. Association investments held by the Foundation decreased \$4.1 million as resources were used to provide support to the University and fulfill contract obligations.

The balance of deferred outflows of resources of \$1.1 million and \$1.3 million as of June 30, 2013 and 2012, respectively represent the loss on refunding of University and Association debt. The decrease relates to the amortization of these amounts to expense

As of June 30, 2013, the University's \$516.1 million in total liabilities consist of \$179.4 million in current liabilities and \$336.7 million in noncurrent liabilities. The \$25.8 million increase in current liabilities relates primarily to the \$18.7 million increase in accounts payable and accrued liabilities, related to the voluntary separation incentive plan established during the fiscal year ended June 30, 2013.

Noncurrent liabilities consist chiefly of \$271.6 million in bonds and notes payable. The \$3.6 million increase in noncurrent liabilities relates primarily to the \$14.0 million increase in other long-term liabilities, offset by the \$8.7 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.

The balance of deferred inflows of resources of \$6.0 million and \$7.2 million for June 30, 2013 and 2012, respectively, primarily represent the net of the investments and contributions required by agreement with the University's food service provider totaling \$5.6 million and \$6.7 million. The decrease is related to the recognition of the net benefit over the life of the contract.

Net position decreased \$68.5 million as compared to June 30, 2012, principally due to a net decrease in academic program support of \$24.5 million, a result of a reduction in revenues from the transition to ULP, for voluntary separation plan expense of \$18.0 million, for the accrual of an \$10.0 million conference realignment fee and for a decrease in net position restricted for debt service of \$7.5 million, a result of a scheduled decrease.

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, 2014, 2013 and 2012, are summarized on the following page:

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2014, 2013, and 2012
(In Thousands)

	2014	Restated 2013	Restated 2012	2014 - 2013 Change	Restated 2013 - 2012 Change
OPERATING REVENUES					
Student tuition and fees, net	\$ 209,442	\$ 195,627	\$ 182,902	\$ 13,815	\$ 12,725
Clinical services and practice plan	227,858	193,212	195,903	34,646	(2,691)
Grants and contracts	91,886	94,309	110,487	(2,423)	(16,178)
Facilities and administrative cost recoveries	21,965	24,011	26,899	(2,046)	(2,888)
Other	78,251	69,997	62,169	8,254	7,828
Total operating revenues	<u>629,402</u>	<u>577,156</u>	<u>578,360</u>	<u>52,246</u>	<u>(1,204)</u>
OPERATING EXPENSES					
Depreciation	56,333	55,311	60,940	1,022	(5,629)
Other	814,339	801,696	770,280	12,643	31,416
Total operating expenses	<u>870,672</u>	<u>857,007</u>	<u>831,220</u>	<u>13,665</u>	<u>25,787</u>
NONOPERATING REVENUES (EXPENSES)					
State appropriations	147,256	144,066	156,114	3,190	(12,048)
Other nonoperating revenues	92,164	85,335	64,472	6,829	20,863
Total nonoperating revenues	<u>239,420</u>	<u>229,401</u>	<u>220,586</u>	<u>10,019</u>	<u>8,815</u>
Voluntary separation plan expense	-	18,001	-	(18,001)	18,001
Decrease in net position	(1,850)	(68,451)	(32,274)	66,601	(36,177)
Net position - beginning of year, as previously reported	-	-	805,512		
Adjustments applicable to prior year	-	-	(9,130)		
Net position - beginning of year, as restated	<u>695,657</u>	<u>764,108</u>	<u>796,382</u>	<u>(68,451)</u>	<u>(32,274)</u>
Net position - end of year	<u>\$ 693,807</u>	<u>\$ 695,657</u>	<u>\$ 764,108</u>	<u>\$ (1,850)</u>	<u>\$ (68,451)</u>

Operating Revenues

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

Student tuition and fees, net of allowances for scholarships and fellowships of \$72.4 million and \$69.1 million, were \$209.4 million and \$195.6 million, or 33% and 34% of total operating revenues, for the years ended June 30, 2014 and 2013, respectively. Gross tuition and fees revenues increased \$17.2 million, or 6% compared to the previous year. This additional revenue resulted from approved tuition rate increases providing \$9.0 million and increased enrollment and other fee increases providing \$8.2 million. The increase was offset by the increase in tuition discount of \$3.3 million, due mainly to increased scholarships, which are directly related to tuition rates.

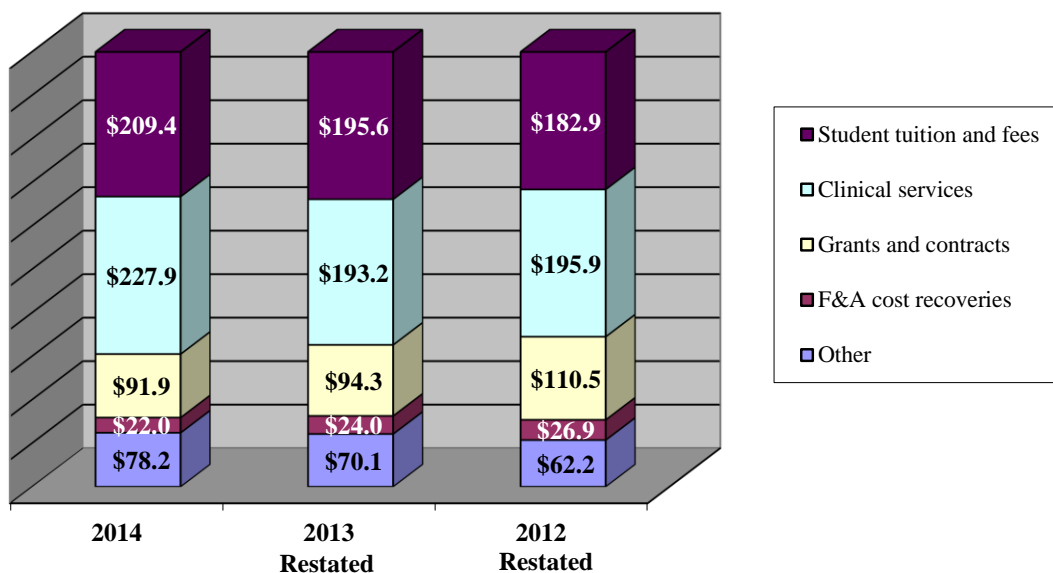
Clinical services and practice plan revenue amounted to \$227.9 million and \$193.2 million, or about 36% and 33% of total operating revenues, for the years ended June 30, 2014 and 2013, respectively. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private insurers, laboratory services and clinical support provided by affiliated hospitals and the University's professional practice plan. Clinical services and practice plan revenue increased by \$34.6 million, including \$26.0 million from clinical operations, due to an increase in the number of Medicaid patients.

Revenue from grants and contracts was \$91.9 million and \$94.3 million for the years ended June 30, 2014 and 2013, respectively. The decrease reflects the national trend of fewer grants and contracts available from Federal and State agencies.

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 were \$22.0 million and \$24.0 million for the years ended June 30, 2014 and 2013. 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, 2014, 2013 and 2012 (in millions):

Operating Revenues Years ended June 30, 2014, 2013, and 2012

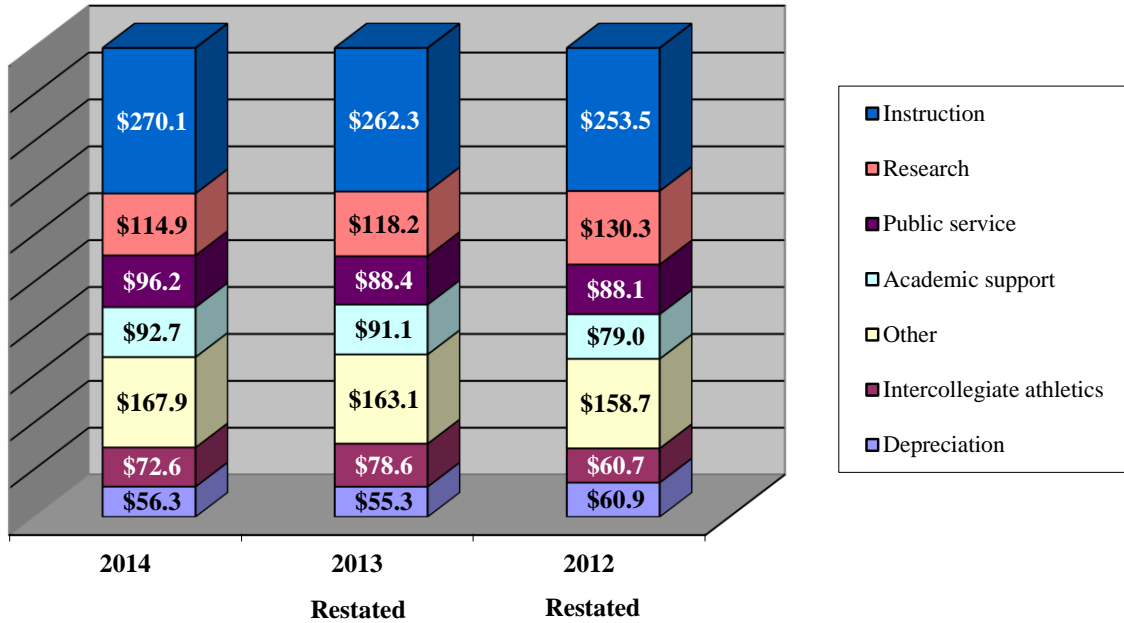


Operating Expenses

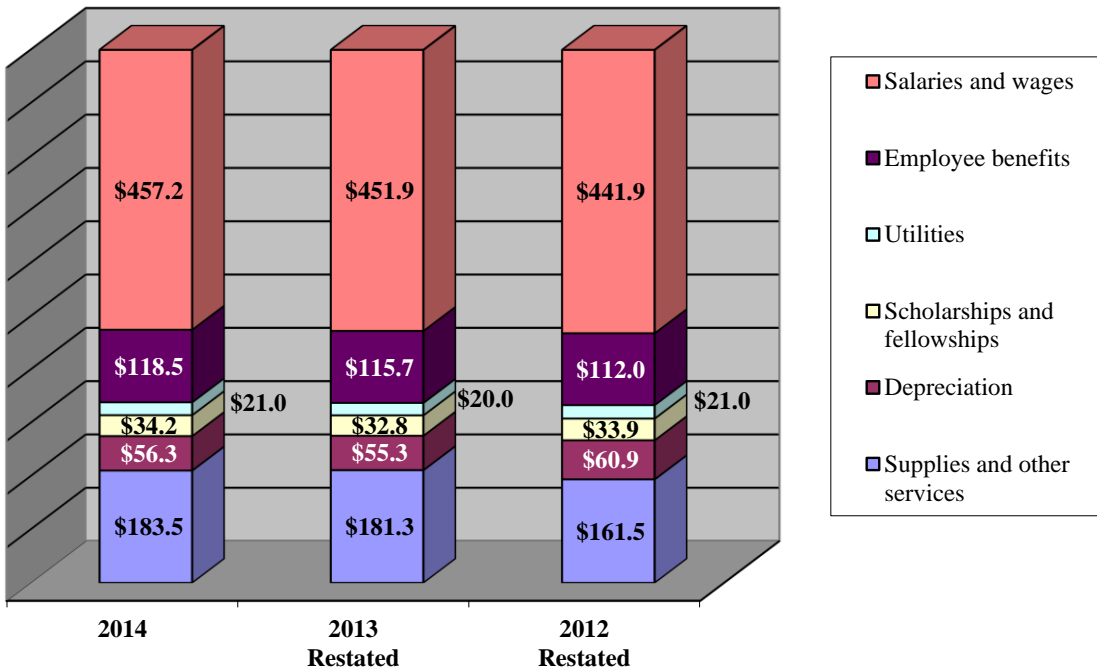
Operating expenses amounted to \$870.7 million and \$857.0 million and exceeded operating revenues by \$241.3 million and \$279.9 million for the years ended June 30, 2014 and 2013, respectively. When offset by total nonoperating revenues of \$239.4 million and \$229.4 million and after reduction for the voluntary separation plan expense of \$18.0 million during fiscal 2013, total net position for the year decreased by \$1.9 million and \$68.5 million for the years ended June 30, 2014 and 2013, respectively. Operating expenses increased by \$13.7 million or 2% 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.

On the following page are graphic illustrations of total expenses by functional and natural classifications for the years ended June 30, 2014, 2013 and 2012 (in millions):

Operating Expenses by Functional Classification
Years ended June 30, 2014, 2013, and 2012



Operating Expenses by Natural Classification
Years ended June 30, 2014, 2013, and 2012



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 \$575.7 million and \$567.6 million in 2014 and 2013, respectively.

Nonoperating Revenues (Expenses)

General state appropriations amounting to \$147.3 million and \$144.1 million were the most significant nonoperating revenues for the years ended June 30, 2014 and 2013, respectively.

In total, net nonoperating revenues and other revenues increased \$10.1 million from the prior year including the increase in net assets transferred from Foundation of \$8.1 million, the increase in capital gifts of \$6.1 million and the increase in capital appropriation of \$2.5 million. The increase in transfers from the Foundation related principally to \$6.9 million received by the Association to fund construction on the soccer and softball stadiums and for an increase of \$2.0 million in transfers to the University to fund employee salary increases. The increase in capital gifts this year relates to Association pledges including \$5.7 million for the soccer stadium and \$4.4 million for the academic center. Capital appropriation revenue represents funding for the development of a new research park on the Belknap Campus. Partially offsetting these increases is a decrease in other nonoperating revenue of \$12.0 million relating to the receipt by the Research Foundation during fiscal 2013 of refunds of FICA tax withheld on medical residents.

Prior Year Discussion

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. Clinical services and practice plans revenue amounted to \$193.2 million and \$195.9 million for the years ended June 30, 2013 and 2012, respectively. Revenue from grants and contracts was \$94.3 million and \$110.5 million for the years ended June 30, 2013 and 2012, respectively. Facilities and administrative cost recoveries were \$24.0 million and \$26.9 million for the years ended June 30, 2013 and 2012 and is directly related to the number of active grants and contracts.

Operating expenses amounted to \$857.0 million and \$831.2 million for the years ended June 30, 2013 and 2012, respectively. Operating expenses increased by \$25.8 million, or 3%, over the amount reported in the previous year.

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.

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, 2014, 2013 and 2012 are summarized below:

Condensed Statements of Cash Flows Years ended June 30, 2014, 2013, and 2012 (In Thousands)

	<u>2014</u>	<u>Restated 2013</u>	<u>Restated 2012</u>	<u>2014 - 2013 Change</u>	<u>Restated 2013 - 2012 Change</u>
Cash (used)/provided by:					
Operating activities	\$ (210,628)	\$ (193,156)	\$ (182,857)	\$ (17,472)	\$ (10,299)
Noncapital financing activities	231,699	229,338	231,137	2,361	(1,799)
Capital and related financing activities	(81,910)	(57,865)	(51,367)	(24,045)	(6,498)
Investing activities	<u>8,466</u>	<u>(6,725)</u>	<u>6,687</u>	<u>15,191</u>	<u>(13,412)</u>
Net (decrease)/increase in cash and cash equivalents	(52,373)	(28,408)	3,600	(23,965)	(32,008)
Cash and cash equivalents, beginning of year	<u>148,053</u>	<u>176,461</u>	<u>172,861</u>	<u>(28,408)</u>	<u>3,600</u>
Cash and cash equivalents, end of year	<u>\$ 95,680</u>	<u>\$ 148,053</u>	<u>\$ 176,461</u>	<u>\$ (52,373)</u>	<u>\$ (28,408)</u>

Operating Activities

Cash used for operating activities increased \$17.5 million due to increased cash used for payments to suppliers of \$32.0 million, increased cash used for payments for benefits of \$14.6 million and decreased cash provided from grants and contracts of \$10.4 million. Partially offsetting these cash uses, cash provided by clinical services and practice plan increased \$31.0 million mainly due to the new academic affiliation agreement with KentuckyOne Health. Cash provided by tuition and fees increased \$13.0 million due to increased enrollment and tuition rates.

Financing Activities

Cash provided by noncapital financing activities increased \$2.4 million primarily due to increased cash provided by transfers from related entities of \$8.1 million, increased cash provided by nonexchange grants and contracts of \$3.5 million and increased cash provided by state appropriations of \$3.2 million. Partially offsetting these increases was decreased cash provided by other noncapital financing activities of \$12.0 million. The increase in cash provided by transfers from related entities relates mainly to the transfer of \$6.9 million to the Association to fund the construction of the soccer and softball stadiums. Cash provided by nonexchange grants and contracts varies with the number of active grants. The decrease in cash provided by other noncapital financing activities relates to the refund during fiscal 2013 of Medicare tax on medical residents.

Cash used for capital and related financing activities increased \$24.0 million due mainly to a decrease in cash provided from proceeds from issuance of long-term liabilities of \$17.3 million and for an increase in cash used for the purchase of capital assets of \$10.2 million. Cash provided during the prior year from the proceeds from issuance of long-term liabilities included a \$15.0 million term loan entered into by the Association and a \$2.3 million note payable issued by the University.

Investing Activities

Cash from investing activities increased \$15.2 million due mainly to a change in the net amount of investments purchased and sold, which totaled \$7.4 million sold for the fiscal year ended June 30, 2014, as compared to \$7.8 million purchased for the fiscal year ended June 30, 2013.

Prior Year Discussion

For the fiscal year ended June 30, 2013, the University's cash and cash equivalents decreased \$28.4 million from cash used by operating activities of \$193.1 million, capital and related financing activities of \$57.9 million and investing activities of \$6.7 million. Partially offsetting these cash uses, cash provided by noncapital financing activities totaled \$229.3 million

Cash used for operating activities increased \$10.3 million over the prior year due to increased cash used for payments to employees of \$11.3 million, decreased cash provided from grants and contracts of \$9.5 million and increased cash used for payments to suppliers of \$6.8 million. Partially offsetting these cash uses, cash provided by tuition and fees increased \$13.3 million, due to increased enrollment and tuition rates.

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 \$6.5 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 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 2013 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 \$9.4 million. The payment of principal decreased, mainly due to the refinancing of CEBRB Series N and Series O during 2012.

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 2012 of a termination payment associated with the cancelation of an investment contract.

Component Units

The Foundation and ULP are included as a discretely presented component units 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, 2014, were \$795.3 million, an increase of \$56.9 million from the June 30, 2013, balance of \$738.4 million. Investments increased due to the net realized and unrealized gain of \$116.7 million, which is due mainly to trends in the markets.

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

Economic Factors That May Affect the Future

As mandated by House Bill 1 of the 1997 General Assembly, the University is to become a nationally recognized metropolitan research university by 2020. The first 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 empowered 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 national recession of 2007 to 2009 has exacerbated the decline in state general fund support. State appropriations in constant dollars have decreased each year from the beginning of the recession in fiscal year 2008 through the current fiscal year 2015 budget. The constant dollar decrease for this period is 26.4%, over 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 32.3%.

The 2014-16 biennial budget passed by the 2014 General Assembly in April 2014 reflected a net 1.5% reduction, or \$2.1 million, in state support for the University in fiscal year 2015. The fiscal year 2016 budget is flat lined from fiscal year 2015. The reduced state funding continues to impact daily operations. The University has not received maintenance and operation funding for new buildings in several years.

The budgetary decisions that support and shape the fiscal year 2015 budget reflect the current and foreseeable economic realities facing public higher education institutions in general and the University in particular.

Due to 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 financial and physical landscape of the University. The "21st Century Initiative" led by the University Provost is a broad-based, campus-wide initiative to position the University to not only meet the 2020 Plan goals, but also to address ways of better serving students and the community in the future.

Again this year, the annual budget focused on the University's "Upward Trajectory". Despite fourteen budget cuts in fifteen years, the lack of maintenance and operations funding, and the dramatic shift in public policy that has, and continues to direct 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 premier 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, 2014 and 2013
(In Thousands)

	2014	Restated 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 75,876	\$ 93,810
Deposit with bond trustee and escrow agent	8,782	12,365
Short-term investments	8,938	13,321
Loans, accounts and contributions receivable, net	75,543	50,559
Due from University of Louisville Foundation, Inc.	15,489	3,123
Inventories	862	1,067
Other assets	8,816	8,048
Total current assets	194,306	182,293
Noncurrent Assets		
Restricted cash and cash equivalents	19,804	54,243
Deposit with bond trustee	2,622	2,509
Loans, accounts and contributions receivable, net	41,658	39,420
Due from University of Louisville Foundation, Inc.	9,854	8,509
Investments held with University of Louisville Foundation, Inc.	34,314	32,710
Other long-term investments	20,404	24,791
Other long-term assets	402	571
Capital assets, net	876,058	871,587
Total noncurrent assets	1,005,116	1,034,340
Total assets	1,199,422	1,216,633
DEFERRED OUTFLOWS OF RESOURCES		
	957	1,124
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	91,705	94,868
Unearned compensation and wages payable	529	1,233
Advances	64,632	57,796
Note payable to University of Louisville Foundation, Inc.	-	200
Bonds and notes payable	22,754	25,263
Total current liabilities	179,620	179,360
Noncurrent Liabilities		
Due to University of Louisville Foundation, Inc.	316	316
Note payable to University of Louisville Foundation, Inc.	1,000	1,000
Unearned compensation and wages payable	6,414	7,441
Deposits	919	781
Advances	15,085	4,721
Amounts due to federal government for student loan programs	16,355	16,525
Other long-term liabilities	33,559	34,381
Bonds and notes payable	248,423	271,564
Total noncurrent liabilities	322,071	336,729
Total liabilities	501,691	516,089
DEFERRED INFLOWS OF RESOURCES		
	4,881	6,011
NET POSITION		
Net investment in capital assets	611,785	594,840
Restricted for:		
Nonexpendable		
Scholarships and fellowships	1,656	1,538
Expendable		
Scholarships and fellowships	883	913
Research	758	3,833
Instruction	2,701	1,809
Public service	17,011	241
Academic support	364	267
Institutional support	6,637	16,671
Loans	2,697	2,707
Capital projects	26,951	31,768
Debt service	16,075	25,046
Unrestricted	6,289	16,024
Total net position	\$ 693,807	\$ 695,657

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Financial Position
June 30, 2014 and 2013
(In Thousands)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 21,537	\$ 27,303
Accounts, notes and accrued interest receivable	5,092	3,723
Loans receivable	16,178	2,008
Prepaid expenses	2,436	1,392
Contributions receivable	31,099	21,812
Investments	795,311	738,446
Funds held in trust by others	52,480	46,749
Restricted investments	7,069	5,473
Other assets	2,038	1,128
Capital assets, net	179,873	148,435
Total assets	\$ 1,113,113	\$ 996,469
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 9,143	\$ 6,232
Funds held in trust for others	45,104	42,685
Other liabilities	22,913	20,158
Due to University of Louisville	25,344	11,632
Bonds and notes payable	127,419	100,581
Total liabilities	229,923	181,288
Net assets:		
Unrestricted:		
Unrestricted - designated	117,168	149,660
Unrestricted - undesignated	31,514	10,284
Total unrestricted	148,682	159,944
Temporarily restricted	308,821	248,622
Permanently restricted	425,687	406,615
Total net assets	883,190	815,181
Total liabilities and net assets	\$ 1,113,113	\$ 996,469

See notes to the financial statements

University of Louisville Physicians, Inc.
Statements of Financial Position
June 30, 2014 and 2013
(In Thousands)

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 280	\$ 1,011
Assets limited as to use	630	2,000
Patient accounts receivable, less allowance for uncollectible accounts of \$34,870 and \$22,838	9,861	10,400
Receivables, related parties	2,087	2,026
Other receivables	1,156	500
Receivable, sale-leaseback	-	742
Prepaid expenses and other current assets	1,214	200
Total current assets	15,228	16,879
Investment in Kentuckiana Medical Reciprocal Risk Retention Group (KMRRRG)	11,623	-
Property and equipment:		
Furniture, fixtures, and equipment	1,494	1,084
Leasehold improvements	1,268	1,064
Practice management system	9,679	8,139
	12,441	10,287
Accumulated depreciation and amortization	(2,311)	(434)
Total property and equipment, net	10,130	9,853
Total assets	\$ 36,981	\$ 26,732
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable	\$ 8,859	\$ 6,132
Accrued payroll and related expenses	5,601	4,517
Line of credit	12,266	12,005
Current portion of capital lease obligations	3,091	2,985
Current portion of Passport settlement	1,724	1,739
Current portion of long-term debt	509	501
Total current liabilities	32,050	27,879
Long-term liabilities:		
Deferred gain on sale-leaseback of equipment	434	517
Capital lease obligations, net of current portion	5,180	8,271
Passport settlement, net of current portion	1,773	3,416
Long-term debt, net of current portion	539	1,039
Total long-term liabilities	7,926	13,243
Total liabilities	39,976	41,122
Net assets (deficits):		
Unrestricted:		
Net deficit	(5,049)	(15,212)
Invested in property and equipment, net of related debt	2,054	822
Total net deficit	(2,995)	(14,390)
Total liabilities and net deficit	\$ 36,981	\$ 26,732

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, 2014 and 2013
(In Thousands)

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowance of \$72,414 in 2014 and \$69,099 in 2013	\$ 209,442	\$ 195,627
Clinical services and practice plan	227,858	193,212
Federal grants and contracts	70,255	74,137
State and local grants and contracts	9,325	10,555
Nongovernmental grants and contracts	12,306	9,617
Sales and services of educational departments	5,332	4,452
Facilities and administrative cost recoveries	21,965	24,011
Auxiliary enterprises, net of discount of \$1,601 in 2014 and \$1,616 in 2013	13,007	13,384
Intercollegiate athletics	49,155	45,878
Other operating revenues	10,757	6,283
Total operating revenues	<u>629,402</u>	<u>577,156</u>
OPERATING EXPENSES		
Instruction	270,083	262,281
Research	114,870	118,193
Public service	96,206	88,373
Academic support	92,743	91,114
Student services	28,140	27,043
Institutional support	48,253	44,178
Operation and maintenance of plant	53,761	54,970
Scholarships and fellowships	29,821	28,870
Auxiliary enterprises	7,860	8,045
Intercollegiate athletics	72,602	78,629
Depreciation and amortization	56,333	55,311
Total operating expenses	<u>870,672</u>	<u>857,007</u>
Operating loss	<u>(241,270)</u>	<u>(279,851)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	147,256	144,066
Gifts	29,245	30,448
Nonexchange grants and contracts	41,706	39,774
Investment income	1,324	1,106
Realized and unrealized gain on investments	2,231	1,177
Interest on capital asset-related debt	(10,939)	(10,996)
Other nonoperating revenues	1,906	13,900
Net nonoperating revenues	<u>212,729</u>	<u>219,475</u>
Loss before other revenues, expenses, gains and losses	<u>(28,541)</u>	<u>(60,376)</u>
Capital appropriations	2,539	-
Capital gifts	13,126	7,031
Net assets transferred from University of Louisville Foundation, Inc.	11,026	2,895
Total other revenues	<u>26,691</u>	<u>9,926</u>
Voluntary separation plan expense	-	18,001
Decrease in net position	<u>(1,850)</u>	<u>(68,451)</u>
NET POSITION		
Net position - beginning of year, as previously reported	-	769,377
Adjustments applicable to prior years	-	(5,269)
Net position - beginning of year, as restated	<u>695,657</u>	<u>764,108</u>
Net position - end of year	<u>\$ 693,807</u>	<u>\$ 695,657</u>

See notes to the financial statements

University of Louisville Foundation, Inc. and Affiliates
Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013
(In Thousands)

	Unrestricted		Temporarily restricted		Permanently restricted		Totals	
	2014	2013	2014	2013	2014	2013	2014	2013
REVENUES, GAINS AND OTHER SUPPORT								
Gifts	\$ 28,370	\$ 24,487	\$ 11,986	\$ 3,568	\$ 9,767	\$ 11,690	\$ 50,123	\$ 39,745
Investment income	797	820	-	-	-	-	797	820
Endowment income	1,189	1,824	7,535	4,414	37	53	8,761	6,291
Net realized and unrealized gain on investments	26,876	19,323	81,728	51,644	8,132	2,469	116,736	73,436
Residence hall income	7,394	7,216	-	-	-	-	7,394	7,216
Real estate income	2,885	2,322	-	-	-	-	2,885	2,322
Actuarial loss on annuity and trust obligations	-	-	(647)	(1,397)	-	-	(647)	(1,397)
Other revenues	9,927	8,484	-	-	-	-	9,927	8,484
Net assets released from restrictions:								
Satisfaction of program restrictions	39,185	33,998	(39,185)	(33,998)	-	-	-	-
Reclassifications	82	2,184	(1,218)	(1,027)	1,136	(1,157)	-	-
Total revenues, gains and other support	116,705	100,658	60,199	23,204	19,072	13,055	195,976	136,917
EXPENSES								
Contributions to various University	11,026	2,895	-	-	-	-	11,026	2,895
Payments on behalf of the University								
Instruction	9,897	7,145	-	-	-	-	9,897	7,145
Research	26,553	21,511	-	-	-	-	26,553	21,511
Public service	7,154	3,579	-	-	-	-	7,154	3,579
Academic support	15,207	17,215	-	-	-	-	15,207	17,215
Student services	424	186	-	-	-	-	424	186
Institutional support	23,617	16,268	-	-	-	-	23,617	16,268
Operation and maintenance of plant	4,136	2,457	-	-	-	-	4,136	2,457
Scholarships/fellowships	9,404	9,577	-	-	-	-	9,404	9,577
Interest expense	4,236	3,664	-	-	-	-	4,236	3,664
Residence hall operations	5,332	5,151	-	-	-	-	5,332	5,151
Real estate operations	9,231	6,381	-	-	-	-	9,231	6,381
General and administrative	1,750	8,837	-	-	-	-	1,750	8,837
Total expenses	127,967	104,866	-	-	-	-	127,967	104,866
Net change in assets from operations	(11,262)	(4,208)	60,199	23,204	19,072	13,055	68,009	32,051
Net assets at beginning of year	159,944	164,152	248,622	225,418	406,615	393,560	815,181	783,130
Net assets at end of year	\$ 148,682	\$ 159,944	\$ 308,821	\$ 248,622	\$ 425,687	\$ 406,615	\$ 883,190	\$ 815,181

See notes to the financial statements

UNIVERSITY OF LOUISVILLE PHYSICIANS, INC.

Statements of Activities

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 169,103	\$ 116,811
Provision for bad debts	<u>(78,011)</u>	<u>(48,011)</u>
Net patient service revenue less provision for bad debts	91,092	68,800
University of Louisville	30,978	18,109
University Physicians Associates, Inc. (UPA)	208	622
Academic programmatic support - related parties	2,586	3,660
Academic programmatic support	737	2,738
Stimulus income	4,263	1,031
Medical directorship	193	603
Other revenue	1,272	226
Integration support reimbursements	2,652	3,182
Clinical services settlement	1,088	-
Gain on acquisition of UPA assets	-	3,211
Gain on investment in KMRRRG	873	-
Interest income	<u>20</u>	<u>13</u>
Total unrestricted revenues, gains and other support	135,962	102,195
Expenses and losses:		
Program services	112,761	87,205
Management and general	22,557	24,026
Loss on sale-leaseback of equipment	<u>-</u>	<u>847</u>
Total expenses and losses	135,318	112,078
Transfer of investment in KMRRRG from UPA	<u>10,751</u>	<u>-</u>
Change in net deficit	11,395	(9,883)
Net deficit, beginning of year	(14,390)	(4,507)
Net deficit, end of year	<u>\$ (2,995)</u>	<u>\$ (14,390)</u>

See notes to the financial statements

University of Louisville and Affiliated Corporations
A Component Unit of the Commonwealth of Kentucky
Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(In Thousands)

	2014	Restated 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 208,307	\$ 195,347
Clinical services and practice plan	232,688	201,660
Grants and contracts	87,864	98,237
Sales and services of educational departments	5,222	4,419
Payments to suppliers	(169,160)	(137,157)
Payments for utilities	(20,564)	(19,395)
Payments to employees	(425,141)	(421,130)
Payments for benefits	(121,424)	(106,822)
Payments for scholarships and fellowships	(20,832)	(20,250)
Loans issued to students and employees	505	240
Auxiliary enterprises	11,540	11,117
Facilities and administrative cost recoveries	21,965	24,011
Intercollegiate athletics, net	(31,453)	(27,739)
Other receipts	9,855	4,306
Net cash used by operating activities	(210,628)	(193,156)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	147,256	144,066
Gifts	29,448	29,815
Nonexchange grants and contracts	42,664	39,209
Transfers from University of Louisville Foundation, Inc.	11,026	2,895
Other noncapital financing activities	1,305	13,353
Net cash provided by noncapital financing activities	231,699	229,338
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	2,539	-
Capital gifts received	8,917	6,098
Purchases of capital assets	(59,160)	(48,936)
Proceeds from issuance of bonds and notes payables	-	17,253
Payments of issuance costs	-	(82)
Payment on note payable to University of Louisville Foundation, Inc.	(200)	(200)
Principal paid on bonds and notes payable	(25,955)	(25,119)
Interest paid on bonds and notes payable	(11,520)	(11,018)
Deposits with bond trustee and escrow agent	3,469	4,139
Net cash used by capital and related financing activities	(81,910)	(57,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	15,453	15,489
Purchase of investments	(8,024)	(23,317)
Interest on investments	1,037	1,103
Net cash provided/(used) by investing activities	8,466	(6,725)
Net decrease in cash and cash equivalents	(52,373)	(28,408)
Cash and cash equivalents - beginning of year	148,053	176,461
Cash and cash equivalents - end of year	\$ 95,680	\$ 148,053

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, 2014 and 2013
(In Thousands)

	2014	Restated 2013
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (241,270)	\$ (279,851)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	56,333	55,311
Loss on equipment disposals	791	582
Change in assets and liabilities:		
Loans, accounts and contributions receivable, net	(21,339)	9,832
Inventories	205	87
Other assets	(927)	(148)
Accounts payable and accrued liabilities	(3,865)	8,507
Advances	16,690	4,790
Deposits	138	(30)
Due from University of Louisville Foundation, Inc.	(13,711)	5,846
Unearned compensation and wages payable	(1,846)	(441)
Other long-term liabilities	(845)	3,471
Deferred inflows of resources	(982)	(1,112)
Net cash used by operating activities	\$ (210,628)	\$ (193,156)
Non cash transactions:		
Capital lease additions	\$ 990	\$ 800
Capital asset additions in accounts payable	\$ 8,265	\$ 7,226
Capital asset additions in other assets	\$ -	\$ 158
Gifts of capital assets	\$ -	\$ 82
Service concession arrangements	\$ 22	\$ 140
Capital asset reimbursement	\$ (2,000)	\$ -

See notes to the financial statements

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

Notes to Financial Statements

June 30, 2014 and 2013

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

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

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

a. Basis of Presentation

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

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

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

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

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

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

b. Cash and Cash Equivalents

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

c. Deposits With Bond Trustee and Escrow Agent

As of June 30, 2014 and 2013, deposits with bond trustee consist of cash and investments in governmental securities and repurchase agreements of \$6.3 million and \$6.6 million, respectively, for the Stadium Project Revenue Bonds, and \$5.1 million and \$8.2 million for the Educational Building Bonds and Housing System Revenue Bonds.

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

d. Contributions Receivable

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

e. Investments and Investment Income

Investments in marketable debt and equity securities are stated at current 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 \$0.7 million and \$0.6 million at June 30, 2014 and 2013, 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 incurred was (in thousands):

	<u>2014</u>	<u>2013</u>
Total interest expense incurred on borrowings for project	\$ 1,949	\$ 2,861
Interest income from investment of proceeds of borrowings for project	(37)	(1,096)
Net interest cost on borrowings for project	<u>\$ 1,912</u>	<u>\$ 1,765</u>
Interest capitalized	\$ 757	\$ 1,535
Interest charged to expense	10,939	10,996
Total interest incurred	<u>\$ 11,696</u>	<u>\$ 12,531</u>

i. Deferred Outflows and Inflows of Resources

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

Deferred outflows of resources consist of \$0.9 million and \$1.1 million of loss on bond refinancing as of June 30, 2014 and 2013, respectively, and \$23 thousand of fair market value of

derivatives as of June 30, 2014. As the derivatives are considered effective hedging instruments, changes in the fair market value of derivatives are recognized as deferred outflows of resources. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense evenly over the remaining life of the refinanced debt.

Deferred inflows of resources consist of \$0.3 million and \$0.4 million of fair market value of derivatives and \$4.6 million and \$5.6 million of service concession arrangements as of June 30, 2014 and 2013, respectively. As the derivatives are considered effective hedging instruments, changes in the fair market value of derivatives are recognized as deferred inflows of resources. Deferred inflows of resources related to the service concession arrangements are recognized evenly over the life of the contract.

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

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

In the case of advanced funding, the University receives funds prior to incurring costs pursuant to the sponsored agreement, with the stipulation that these funds may have to be returned to the sponsor. Grant revenues are recognized as the related grant costs are incurred.

l. Compensated Absences

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

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

o. Classification of Revenues

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

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

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

p. Student Tuition and Fees

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

q. Clinical Services and Practice Plan Revenue

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

r. Government Grants

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

s. Tax Status

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

t. Use of Estimates

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

u. Change in Accounting Principle

During 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in the financial statement presentations.

Adoption of GASB 65 resulted in a decrease of \$2.3 million in net position as of July 1, 2012 and a decrease in the decrease in net position of \$0.2 million for the year ended June 30, 2013. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from application of GASB 65 are the reclassification of the \$1.3 million of deferred losses from the refunding of debt to deferred outflows of resources.

v. Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 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, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Deposits	\$ 95,680	\$ 148,053
Investments		
Variable rate demand notes	4,280	5,507
U.S. Treasury obligations	5,179	9,445
U.S. agencies obligations	3,001	-
Other government obligations	21,361	29,680
Repurchase agreements	6,225	5,429
Investments held with the Foundation	34,314	32,710
Certificates of deposit	698	697
Common stock	2	2
Building	-	2,226
	<u>\$ 170,740</u>	<u>\$ 233,749</u>

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

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 75,876	\$ 93,810
Deposit with bond trustee-current	8,782	12,365
Short-term investments	8,938	13,321
Restricted cash and cash equivalents	19,804	54,243
Deposit with bond trustee-noncurrent	2,622	2,509
Investments held with the Foundation	34,314	32,710
Other long-term investments	20,404	24,791
	<u>\$ 170,740</u>	<u>\$ 233,749</u>

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits or collateral securities may not be returned to it. The University currently uses commercial banks and the Commonwealth of Kentucky (Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in 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, 2014 and 2013, the University had deposits subject to custodial credit risk as follows (in thousands):

<u>June 30, 2014</u>	<u>State Deposits</u>	<u>Overnight Investments</u>	<u>Total</u>
Uninsured and uncollateralized		\$ 771	\$ 771
Collateralized with securities held by pledging financial institution		10,448	10,448
Collateralized with securities held by the Commonwealth in the Commonwealth's name	\$ 27,319	-	27,319
Total	<u>\$ 27,319</u>	<u>\$ 11,219</u>	<u>\$ 38,538</u>

<u>June 30, 2013</u>	<u>State Deposits</u>	<u>Overnight Investments</u>	<u>Total</u>
Collateralized with securities held by pledging financial institution		\$ 7,796	\$ 7,796
Collateralized with securities held by the Commonwealth in the Commonwealth's name	\$ 40,121	-	40,121
Total	<u>\$ 40,121</u>	<u>\$ 7,796</u>	<u>\$ 47,917</u>

c. Interest Rate Risk

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

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

As of June 30, 2014 and 2013, the University had investments subject to interest rate risk as follows (in thousands):

June 30, 2014	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 5,179	\$ 3,669	\$ 1,510		
U.S. agencies obligations	3,001	-	3,001		
Other government obligations	21,361	8,738	12,623		
Repurchase agreements	6,225	657	1,309	\$ 978	\$ 3,281
Certificates of deposit	698	201	497	-	-
	<u>\$ 36,464</u>	<u>\$ 13,265</u>	<u>\$ 18,940</u>	<u>\$ 978</u>	<u>\$ 3,281</u>

June 30, 2013	Fair Value	Maturities in years			
		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 agreement	5,429	404	1,964	\$ 708	\$ 2,353
Certificates of deposit	697	697	-	-	-
	<u>\$ 45,251</u>	<u>\$ 21,439</u>	<u>\$ 20,751</u>	<u>\$ 708</u>	<u>\$ 2,353</u>

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. By University policy, commercial paper must be rated the highest (A-1/P-1) by at least one 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, 2014 and 2013, the University had the following deposits and investments exposed to credit risk as follows and on the following page (in thousands):

June 30, 2014	A3	Not Rated	Total
Variable rate demand notes	\$ 4,280		\$ 4,280
Common stock		\$ 2	2
Investments held with the Foundation		34,314	34,314
	<u>\$ 4,280</u>	<u>\$ 34,316</u>	<u>\$ 38,596</u>

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

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments.

At June 30, 2014 and 2013, 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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Investment in partnerships	60%	56%
Marketable alternatives	19%	19%
Preferred and common stock	6%	11%
Mutual funds	10%	9%
Corporate bonds	3%	3%
Equity method investments	1%	1%
Certificates of deposit	1%	1%
	<u>100%</u>	<u>100%</u>

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, 2014 and 2013.

3. Loans, Accounts and Contributions Receivable, Net

Loans, accounts and contributions receivable, net as of June 30, 2014 and 2013 are as follows (in thousands):

	2014		
	Gross		Net
	Receivable	Allowance	Receivable
Student tuition and fees	\$ 34,089	\$ (6,459)	\$ 27,630
Patient care	81,308	(50,060)	31,248
Contributions receivable	30,691	(2,290)	28,401
Sponsored agreements	17,204	(2,740)	14,464
Rent from University Medical Center, Inc.	3,602	-	3,602
Trade receivables	1,474	-	1,474
Other	11,807	(719)	11,088
Total	<u>\$ 180,175</u>	<u>\$ (62,268)</u>	<u>117,907</u>
Less discount			(706)
Current portion			<u>75,543</u>
Noncurrent portion			<u>\$ 41,658</u>

	2013 (Restated)		
	Gross		Net
	Receivable	Allowance	Receivable
Student tuition and fees	\$ 32,877	\$ (6,142)	\$ 26,735
Patient care	33,752	(17,568)	16,184
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	<u>\$ 122,004</u>	<u>\$ (31,062)</u>	<u>90,942</u>
Less discount			(963)
Current portion			<u>50,559</u>
Noncurrent portion			<u>\$ 39,420</u>

Contributions receivable consist primarily of charitable gifts totaling \$30.7 million pledged from individual and corporate donors that are associated with the construction projects of the Association. Receivables with payment schedules in excess of one year are stated at their discounted present value, using discount rates ranging from 0.2% to 5.2% as of June 30, 2014.

Contributions receivable as of June 30, 2014 and 2013 are due to be received as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 6,444	\$ 5,084
One to three years	10,503	8,665
Greater than three years	<u>13,744</u>	<u>12,504</u>
Subtotal	30,691	26,253
Less discount	(706)	(963)
Less allowance	<u>(2,290)</u>	<u>(2,110)</u>
Net contributions receivable	<u>\$ 27,695</u>	<u>\$ 23,180</u>

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

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.

In June 2014, the University entered into a Memorandum of Agreement with the Foundation to loan the Foundation a total of \$29.0 million. The unpaid balance on the receivable bears simple interest equal to 75 basis points greater than the University's cash sweep rate. The term of the loan is one year from the final transfer of funds to the Foundation. As of June 30, 2014 the outstanding balance was \$5.8 million, with an interest rate of 1.0 percent. This is recorded within the current Due from the University of Louisville Foundation, Inc. on the statement of net position.

5. Capital Assets, Net

Capital assets as of June 30, 2014 and 2013 are as follows and on the following page (in thousands):

	2014				Ending Balance
	Beginning Balance	Additions	Retire- ments	Transfers	
Cost - Nondepreciable					
Land	\$ 45,852	\$ 352	\$ (2,000)		\$ 44,204
Rare books	41,479	-			41,479
Construction in progress	40,505	43,383		\$ (41,422)	42,466
Subtotal	<u>127,836</u>	<u>43,735</u>	<u>(2,000)</u>	<u>(41,422)</u>	<u>128,149</u>
Cost - Depreciable					
Buildings	1,043,910	8,670	(732)	37,165	1,089,013
Infrastructure	10,308	90	-	840	11,238
Land improvements	14,235	213	-	3,417	17,865
Equipment	191,500	6,971	(3,966)	-	194,505
Leasehold improvements	2,001	-	-	-	2,001
Library materials	160,181	3,916	(106)	-	163,991
Subtotal	<u>1,422,135</u>	<u>19,860</u>	<u>(4,804)</u>	<u>41,422</u>	<u>1,478,613</u>
Total capital assets-cost	<u>1,549,971</u>	<u>63,595</u>	<u>(6,804)</u>	<u>-</u>	<u>1,606,762</u>
Accumulated depreciation					
Buildings	388,046	33,717	(184)	-	421,579
Infrastructure	2,828	181	-	-	3,009
Land improvements	2,028	494	-	-	2,522
Equipment	152,836	15,730	(3,810)	-	164,756
Leasehold improvements	1,313	58	-	-	1,371
Library materials	131,333	6,153	(19)	-	137,467
Total accumulated depr.	<u>678,384</u>	<u>56,333</u>	<u>(4,013)</u>	<u>-</u>	<u>730,704</u>
Capital assets, net	<u>\$ 871,587</u>	<u>\$ 7,262</u>	<u>\$ (2,791)</u>	<u>\$ -</u>	<u>\$ 876,058</u>

	2013 (Restated)				
	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	<u>125,734</u>	<u>36,236</u>	<u>(5)</u>	<u>(34,129)</u>	<u>127,836</u>
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	155,690	4,491	-	-	160,181
Subtotal	<u>1,383,429</u>	<u>16,241</u>	<u>(11,664)</u>	<u>34,129</u>	<u>1,422,135</u>
Total capital assets-cost	<u>1,509,163</u>	<u>52,477</u>	<u>(11,669)</u>	<u>-</u>	<u>1,549,971</u>
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	124,885	6,448	-	-	131,333
Total accumulated depr.	<u>634,213</u>	<u>55,258</u>	<u>(11,087)</u>	<u>-</u>	<u>678,384</u>
Capital assets, net	<u>\$ 874,950</u>	<u>\$ (2,781)</u>	<u>\$ (582)</u>	<u>\$ -</u>	<u>\$ 871,587</u>

6. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following at June 30, 2014 and 2013 (in thousands):

	2014	2013
Salaries and benefits	\$ 47,569	\$ 50,482
Payroll taxes	15,071	12,913
Construction	8,875	8,164
Accrued interest	3,832	4,061
Other	16,358	19,248
	<u>\$ 91,705</u>	<u>\$ 94,868</u>

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, 2014 and 2013, the Association repaid \$0.2 million, respectively.

The outstanding balance was approximately \$1.0 million and \$1.2 million as of June 30, 2014 and 2013, respectively, of which \$0.2 million was shown as current as of June 30, 2013.

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, 2014 and 2013.

8. Bonds, Notes and Capital Leases

Long-term debt, net of discount, of the University consisted of the following at June 30, 2014 and 2013 (in thousands):

	<u>Interest Rate</u>	<u>Fiscal Year of Maturity</u>	<u>2014</u>	<u>(Restated) 2013</u>
Consolidated Educational Building				
Revenue Bonds:				
Series M of 2003	1.50%	2016	\$ 4,180	\$ 8,770
Series P of 2005	3.6% to 4.0%	2025	2,815	3,020
Housing Systems Revenue Bonds:				
Series E of 2003		2014	-	350
Series F of 2004		2014	-	1,855
General Receipts Bonds:				
Series A of 2007	4.0%	2028	31,945	33,615
Series A of 2008	4.0% to 4.5%	2029	70,785	74,105
Series A of 2010	2.2% to 5.8%	2028	3,630	3,845
Series B of 2010	5.50%	2028	20,942	20,942
Series A of 2011	4.0% to 5.0%	2032	31,575	32,700
Series A of 2012	4.0% to 5.0%	2023	12,230	13,315
Metro Government Revenue				
Bonds:				
Series 2008 A	4.0% to 5.0%	2018	20,235	24,805
Series 2008 B	3.8% to 4.8%	2028	33,125	34,865
Notes payable	1.3% to 4.8%	2020	18,053	18,722
Energy lease	4.8%	2023	15,855	17,149
Capital lease obligations	1.4% to 3.7%	2018	<u>1,142</u>	<u>3,416</u>
Total long-term debt			266,512	291,474
Net unamortized premium			4,665	5,353
Long-term debt, net			<u>\$ 271,177</u>	<u>\$ 296,827</u>

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

2014						
	Beginning Balance	Additions	Retire- ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	\$ 252,187		\$ (20,725)	\$ 231,462	\$ 17,888	\$ 213,574
Notes payable	18,722		(669)	18,053	2,239	15,814
Energy lease	17,149		(1,294)	15,855	1,356	14,499
Capital leases	3,416	\$ 994	(3,268)	1,142	631	511
Total	<u>291,474</u>	<u>994</u>	<u>(25,956)</u>	<u>266,512</u>	<u>22,114</u>	<u>244,398</u>
Less unamortized net (discount)/premium	5,353	-	(688)	4,665	640	4,025
Net bonds payable	<u>\$ 296,827</u>	<u>\$ 994</u>	<u>\$ (26,644)</u>	<u>\$ 271,177</u>	<u>\$ 22,754</u>	<u>\$ 248,423</u>
2013 (Restated)						
	Beginning Balance	Additions	Retire- ments	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	\$ 271,710		\$ (19,523)	\$ 252,187	\$ 20,980	\$ 231,207
Note 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	<u>298,542</u>	<u>18,053</u>	<u>(25,121)</u>	<u>291,474</u>	<u>24,575</u>	<u>266,899</u>
Less unamortized net discount	5,976	-	(623)	5,353	688	4,665
Net bonds payable	<u>\$ 304,518</u>	<u>\$ 18,053</u>	<u>\$ (25,744)</u>	<u>\$ 296,827</u>	<u>\$ 25,263</u>	<u>\$ 271,564</u>

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

For the year ended			
June 30	Principal	Interest	Total
2015	\$ 22,114	\$ 11,400	\$ 33,514
2016	22,079	10,631	32,710
2017	20,449	9,838	30,287
2018	30,160	9,012	39,172
2019	14,554	7,996	22,550
2020 - 2024	77,626	30,703	108,329
2025 - 2029	72,172	13,032	85,204
2030 - 2032	7,358	565	7,923
Total	<u>\$ 266,512</u>	<u>\$ 93,177</u>	<u>\$ 359,689</u>

The University has capitalized leased equipment with a net book value of \$3.0 million and \$4.5 million as of June 30, 2014 and 2013, respectively.

Bonds are collateralized by mortgages on certain University properties for the Consolidated Educational Building Revenue Bonds. Certain building revenues, tuition and fees are pledged for the Consolidated Educational Building 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 \$334.8 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 \$32.1 million and \$491.1 million, respectively

As of June 30, 2014 and 2013, investments at current market value totaling approximately \$11.4 million and \$14.8 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.

CEBRB Series M of 2003

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

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

CEBRB Series P of 2005

In June 2005, the University issued approximately \$4.2 million in revenue bonds, the proceeds of which funded the acquisition of the Home of the Innocents property to be subsequently renovated for use by the School of Public Health and Information Sciences. Delivery of the Series P Bonds took place on June 15, 2005. The bonds mature incrementally on May 1 of each year beginning May 1, 2007 until May 1, 2025. The interest on the bonds is paid semiannually, on May 1 and November 1, commencing November 1, 2005. The interest rate on the bonds ranges from 3.6% to 4.0%.

University of Louisville General Receipts Bond, 2007 Series A

In April 2007, the University issued the \$41.0 million General Receipts Bond, Series A to provide permanent fixed rate financing for the renovation of the Home of the Innocents property, to provide office space to be used by the University's School of Public Health and Information Sciences; land acquisition for and construction of Patterson Baseball Stadium; construction of Trager Field House for use by intercollegiate teams; construction of the YUM Practice Facility, to be used by the basketball and volleyball teams; and construction of the Center for Predictive Medicine, a Level 3 Regional Bio-safety Laboratory. Security for the bonds includes a pledge of the general receipts of the University and includes the imposition of a state intercept. Final maturity of the bonds is September 1, 2027.

University of Louisville General Receipts Bonds, 2008 Series A

In July 2008, the University issued \$86.1 million of University of Louisville, General Receipts Bonds, 2008 Series A at a net interest cost of 4.4 percent. The bond proceeds will be used for the

construction of a second Health Sciences Center parking garage, to fully fund the construction of a Clinical and Translational Research Building, and for renovation of the School of Dentistry. Security for the bonds includes a pledge of the general receipts of the University and the imposition of a state intercept. Final maturity of the bonds is September 1, 2028.

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 66.6%.

University of Louisville General Receipts Bonds, 2011 Series A

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

University of Louisville General Receipts Bonds, 2012 Series A

In June 2012, the University issued \$14.6 million of University of Louisville, General Receipts Bonds, 2012 Series A at a total interest cost of 2.1%. The bonds were issued to advance refund \$13.5 million of Consolidated Educational Buildings Revenue Bonds Series N (Series N) with a weighted average interest rate of 3.9% and \$5.3 million of Consolidated Educational Buildings Revenue Bonds Series O (Series O) with a weighted average interest rate of 4.1% (combined, the prior bonds). The bond proceeds together with an issuance premium of \$2.5 million and funds from the debt service reserve fund for the prior bonds of \$2.8 million have been deposited in escrow and will be used to pay the interest and principal requirements of the prior bonds maturing through and

including May 1, 2013, and redeem and retire the prior bonds on May 1, 2013. Final maturity on the 2012 Bonds is March 1, 2023.

There were no debt service requirements on the prior bonds as of June 30, 2014 and 2013.

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

In August 2008, the Louisville Metro Government issued \$39.8 million of Mortgage Revenue Refunding Bonds Series 2008 A with a maturity date of March 1, 2018 and \$43.5 million of Mortgage Revenue Bonds Series 2008 B with a maturity date of March 1, 2028 at a combined net interest cost of 4.2 percent. The bond proceeds were used to retire on September 1, 2008 the outstanding County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa John’s Cardinal Stadium (the Prior Project). The refunding resulted in a net present value benefit of \$475,000 and a loss on defeasance of approximately \$114,000. Additional funds will be used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project. .

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, 2014, the Association has the following derivative instruments outstanding (in thousands):

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Fair Value</u>
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%	\$ (23)
Forward delivery agreement	Earn a higher rate of return than investments with shorter life	\$ 1,510	08/05/08	03/01/18	Receive 6.4% on balance of scheduled reserve amount	\$ 304

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, 2014, the change in fair value of the Forward Delivery Agreement was approximately \$68,000. The Association receives settlement semi-annually and the settlement is included in interest expense.

The fair value of the Interest Rate Swap was determined using the market's current forward rate assumptions in order to predict future cash flows on the floating side and is included in other long-term liabilities on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred outflows of resources on the Association's statements of net position. For the year ended June 30, 2014, the decrease in fair value of the Interest Rate Swap was approximately \$103,000. 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, 2014. 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, 2014, 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, 2014 and 2013 (in thousands):

	2014					
	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.	1,200		\$ (200)	1,000		1,000
Unearned compensation and wages payable	8,674	\$ 1,790	(3,521)	6,943	\$ 529	6,414
Deposits	781	225	(87)	919	-	919
Advances	62,517	66,927	(49,727)	79,717	64,632	15,085
Amounts due federal government for student loan program	16,525	-	(170)	16,355	-	16,355
Other postemployment benefits	27,300	6,581	(2,812)	31,069	4,798	26,271
Other long-term liabilities	25,464	3,457	(11,017)	17,904	10,616	7,288
Total	<u>\$ 142,777</u>	<u>\$ 78,980</u>	<u>\$ (67,534)</u>	<u>\$154,223</u>	<u>\$ 80,575</u>	<u>\$ 73,648</u>

	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
Unearned 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 postemployment benefits	24,045	5,294	(2,039)	27,300	3,624	23,676
Other long-term liabilities	177	28,077	(2,790)	25,464	14,759	10,705
Total	<u>\$ 109,804</u>	<u>\$ 87,210</u>	<u>\$ (54,237)</u>	<u>\$142,777</u>	<u>\$ 77,612</u>	<u>\$ 65,165</u>

Other long-term liabilities as of June 30, 2014 and 2013, include the voluntary separation incentive liability and other contractual payments. The current portion of other postemployment benefits and other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2014 and 2013.

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, 2014 and 2013, are as follows (in thousands):

Condensed Statements of Net Position

	2014			
	University	Research Foundation	Athletic Association	Total
	University	Research Foundation	Athletic Association	Total
Current assets	\$ 101,331	\$ 46,347	\$ 46,628	\$ 194,306
Capital assets	647,546	74,365	154,147	876,058
Other noncurrent assets	62,989	617	65,452	129,058
Total assets	<u>811,866</u>	<u>121,329</u>	<u>266,227</u>	<u>1,199,422</u>
Deferred outflows of resources	909	-	48	957
Current liabilities	93,646	34,657	51,317	179,620
Due to University	(9,173)	-	9,173	-
Other noncurrent liabilities	239,976	8,889	73,206	322,071
Total liabilities	<u>324,449</u>	<u>43,546</u>	<u>133,696</u>	<u>501,691</u>
Deferred inflows of resources	4,577	-	304	4,881
Net investment in capital assets	444,421	74,365	92,999	611,785
Restricted-nonexpendable	-	-	1,656	1,656
Restricted-expendable	47,996	1,689	24,392	74,077
Unrestricted	(8,668)	1,729	13,228	6,289
Total net position	<u>\$ 483,749</u>	<u>\$ 77,783</u>	<u>\$ 132,275</u>	<u>\$ 693,807</u>
	2013 (Restated)			
	University	Research Foundation	Athletic Association	Total
	University	Research Foundation	Athletic Association	Total
Current assets	\$ 83,487	\$ 51,330	\$ 47,476	\$ 182,293
Capital assets	661,583	72,405	137,599	871,587
Other noncurrent assets	87,800	1,161	73,792	162,753
Total assets	<u>832,870</u>	<u>124,896</u>	<u>258,867</u>	<u>1,216,633</u>
Deferred outflows of resources	1,087	-	37	1,124
Current liabilities	107,693	23,098	48,569	179,360
Due to University	(9,173)	-	9,173	-
Other noncurrent liabilities	246,234	7,979	82,516	336,729
Total liabilities	<u>344,754</u>	<u>31,077</u>	<u>140,258</u>	<u>516,089</u>
Deferred inflows of resources	5,559	-	452	6,011
Net investment in capital assets	446,107	72,405	76,328	594,840
Restricted-nonexpendable	-	-	1,538	1,538
Restricted-expendable	51,556	4,387	27,312	83,255
Unrestricted	(14,019)	17,027	13,016	16,024
Total net position	<u>\$ 483,644</u>	<u>\$ 93,819</u>	<u>\$ 118,194</u>	<u>\$ 695,657</u>

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

	2014			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 209,442			\$ 209,442
Clinical services and practice plan	21,979	\$ 205,879		227,858
Grants and contracts	481	91,405		91,886
Facilities and administrative cost recoveries	-	21,965		21,965
Other operating revenue	22,677	6,419	\$ 49,155	78,251
Total operating revenues	<u>254,579</u>	<u>325,668</u>	<u>49,155</u>	<u>629,402</u>
Depreciation	42,775	9,205	4,353	56,333
Other operating expenses	374,998	359,890	79,451	814,339
Total operating expenses	<u>417,773</u>	<u>369,095</u>	<u>83,804</u>	<u>870,672</u>
Operating loss	(163,194)	(43,427)	(34,649)	(241,270)
State appropriations	147,256	-	-	147,256
Gifts	151	51	29,043	29,245
Interest on capital asset-related debt	(8,275)	-	(2,664)	(10,939)
Other nonoperating revenues	2,710	41,689	2,768	47,167
Capital appropriations	2,539	-	-	2,539
Capital gifts	171	-	12,955	13,126
Transfers	18,747	(14,349)	6,628	11,026
Total nonoperating revenues	<u>163,299</u>	<u>27,391</u>	<u>48,730</u>	<u>239,420</u>
Change in net position	105	(16,036)	14,081	(1,850)
Net position - beginning of year, as restated	483,644	93,819	118,194	695,657
Net position - end of year	<u>\$ 483,749</u>	<u>\$ 77,783</u>	<u>\$ 132,275</u>	<u>\$ 693,807</u>
	2013 (Restated)			
	University	Research Foundation	Athletic Association	Total
Student tuition and fees, net	\$ 195,627			\$ 195,627
Clinical services and practice plan	19,332	\$ 173,880		193,212
Grants and contracts	1,835	92,474		94,309
Facilities and administrative cost recoveries	-	24,011		24,011
Other operating revenues	21,570	2,549	\$ 45,878	69,997
Total operating revenues	<u>238,364</u>	<u>292,914</u>	<u>45,878</u>	<u>577,156</u>
Depreciation	41,629	9,481	4,201	55,311
Other operating expenses	373,664	351,874	76,158	801,696
Total operating expenses	<u>415,293</u>	<u>361,355</u>	<u>80,359</u>	<u>857,007</u>
Operating loss	(176,929)	(68,441)	(34,481)	(279,851)
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	2,674	51,627	1,656	55,957
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	<u>134,439</u>	<u>40,801</u>	<u>36,160</u>	<u>211,400</u>
Change in net position	(42,490)	(27,640)	1,679	(68,451)
Net position - beginning of year, as previously reported	538,820	113,316	117,241	769,377
Adjustments applicable to prior years	(12,686)	8,143	(726)	(5,269)
Net position - beginning of year, as restated	<u>526,134</u>	<u>121,459</u>	<u>116,515</u>	<u>764,108</u>
Net position - end of year	<u>\$ 483,644</u>	<u>\$ 93,819</u>	<u>\$ 118,194</u>	<u>\$ 695,657</u>

Condensed Statements of Cash Flows

	2014			Total
	University	Research Foundation	Athletic Association	
Cash (used)/provided by:				
Operating activities	\$ (131,198)	\$ (47,977)	\$ (31,453)	\$ (210,628)
Noncapital financing activities	158,451	37,374	35,874	231,699
Capital and related financing activities	(49,008)	(11,359)	(21,543)	(81,910)
Investing activities	7,420	-	1,046	8,466
Net (decrease)/increase in cash and cash equivalents	(14,335)	(21,962)	(16,076)	(52,373)
Cash and cash equivalents, beginning of year	66,700	21,962	59,391	148,053
Cash and cash equivalents, end of year	<u>\$ 52,365</u>	<u>\$ -</u>	<u>\$ 43,315</u>	<u>\$ 95,680</u>

	2013			Total
	University	Research Foundation	Athletic Association	
Cash (used)/provided by:				
Operating activities	\$ (112,558)	\$ (52,859)	\$ (27,739)	\$ (193,156)
Noncapital financing activities	159,330	40,194	29,814	229,338
Capital and related financing activities	(58,675)	(4,412)	5,222	(57,865)
Investing activities	(12,420)	-	5,695	(6,725)
Net increase/(decrease) 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	<u>\$ 66,700</u>	<u>\$ 21,962</u>	<u>\$ 59,391</u>	<u>\$ 148,053</u>

b. University of Louisville Foundation, Inc. and Affiliates

The University of Louisville Foundation, Inc. (ULF) and Affiliates (collectively, "Foundation") is a legally separate, tax-exempt component unit of the University, under the provisions of GASB Statement No. 39. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The fifteen-member board of the Foundation is self-perpetuating. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests 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, 2014 and 2013 were \$96.4 million and \$77.9 million, respectively. Complete financial statements for the Foundation can be obtained from Foundation Administration at University of Louisville, 215 Central Avenue, Suite 304, Louisville, KY 40292.

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

The Foundation's consolidated financial statements include the balances and transactions of the University of Louisville Foundation, Inc. (ULF), ULH, Inc. (ULH), University Holdings, Inc. (UHI), University of Louisville Development Corporation, LLC (ULDC), Nucleus: Kentucky's Life Sciences and Innovation Center, LLC (Nucleus), AAF-Louisville, LLC (AAF), MetaCyte Business Lab, LLC (MetaCyte), MetaCyte Equity Holdings, LLC (MetaCyte Equity), KYT-Louisville, LLC (KYT), Phoenix Place – Louisville, LLC (PPL), Louisville Medical Center Development Corporation (LMCDC), Minerva-Louisville, LLC (Minerva), The Nucleus Real Properties, Inc. (TNRP), CCG, LLC (CCG) and DCPA, LLC (DCPA) (collectively "Foundation"). All material intercompany balances and transactions have been eliminated in consolidation. ULF has been designated by the University to receive funds derived from gifts and other sources, including funds held in trust by others.

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, 2014 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.

TNRP is a Kentucky not-for-profit corporation formed in July 2013 affiliated with the Foundation through a common board of directors and certain common management. TNRP's purpose is to develop the property and improvements located at the corner of Market and Shelby Streets in Louisville, Kentucky commonly known as The TNRP Building as a revenue producing asset, in order to further the charitable and educational purposes of the Foundation.

CCG is a limited liability company formed in December 2013, whose sole member is ULF. Its purpose is to acquire and operate a first class collegiate golf practice facility located in Shelby County, Kentucky. Formally known as the Cardinal Club, CCG is managed by the Association.

DCPA is a limited liability company formed in May 2014, 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.

1. Endowments

The Foundation's endowment consists of approximately 2,000 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, 2014 and 2013, was (in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 105	\$ 278,355	\$ 425,687	\$ 704,147
Board-designated endowment funds	120,198	-	-	120,198
	<u>\$ 120,303</u>	<u>\$ 278,355</u>	<u>\$ 425,687</u>	<u>\$ 824,345</u>

	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
	<u>\$ 113,350</u>	<u>\$ 221,809</u>	<u>\$ 406,615</u>	<u>\$ 741,774</u>

Changes in endowment net assets for the years ended June 30, 2014 and 2013 were (in thousands):

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 113,350	\$ 221,809	\$ 406,615	\$ 741,774
Investment return:				
Investment and endowment income	1,077	7,347	37	8,461
Net appreciation	28,679	76,618	8,132	113,429
Total investment return	29,756	83,965	8,169	121,890
Contributions	160	3,208	9,767	13,135
Appropriation of endowment assets for expenditures	(25,923)	(30,353)	-	(56,276)
Other changes	2,960	(274)	1,136	3,822
Endowment net assets, end of year	<u>\$ 120,303</u>	<u>\$ 278,355</u>	<u>\$ 425,687</u>	<u>\$ 824,345</u>

	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 depreciation	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	<u>\$ 113,350</u>	<u>\$ 221,809</u>	<u>\$ 406,615</u>	<u>\$ 741,774</u>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2014 and 2013, consisted of (in thousands):

	<u>2014</u>	<u>2013</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UMIFA	<u>\$ 425,687</u>	<u>\$ 406,615</u>
Temporarily restricted net assets - term endowment funds	<u>\$ 12,780</u>	<u>\$ 11,629</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to approximately \$670,000 and \$3.2 million at June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

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

Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that achieves a minimum net total return which is equal to the Foundation's

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

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average fair value over the prior three years through the calendar year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation balances the long-term expected return on its endowment against the level of expenditures required to support the University's goals and objectives. Recognizing that markets are volatile, the Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. For the fiscal year ended June 30, 2014, the Foundation Board of Directors approved a modification to the spending policy, by eliminating the past carryover balance from the average fair value calculation. For the fiscal years ended June 30, 2014 and 2013, 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 16.5% and 10.8% in 2014 and 2013, respectively.

The amount available for spending under the policy was approximately \$32.9 million and \$35.5 million for the years ended June 30, 2014 and 2013, respectively, of which approximately \$32.9 million and \$35.2 million was actually expended for the years then ended.

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

2. Investments and Investment Income

Investments as of June 30, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Investment in partnerships and funds of funds	\$ 472,770	\$ 415,716
Mutual funds	74,535	59,094
Marketable alternatives	154,823	143,907
Preferred and common stock	50,808	81,746
Corporate bonds	23,198	23,010
U.S. government securities	3,709	187
Equity method investments	6,115	5,481
Certificate of deposit	8,128	8,016
Land and buildings	1,225	1,289
Total investments	<u>\$ 795,311</u>	<u>\$ 738,446</u>

Restricted investments are restricted by bond indenture for payment of debt service, and repairs and replacement. Restricted investments as of June 30, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Money market mutual funds	\$ 3,209	\$ 2,914
U.S. agency obligations	2,575	2,559
U.S. Treasury	1,285	-
	<u>\$ 7,069</u>	<u>\$ 5,473</u>

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

	<u>2014</u>	<u>2013</u>
Interest income	\$ 797	\$ 820
Endowment income	8,761	6,291
Net realized and unrealized gain on investments	116,736	73,436
	<u>\$ 126,294</u>	<u>\$ 80,547</u>

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

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

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities. In an effort to mitigate this market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset

allocation guidelines. These guidelines require that the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

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

a. Alternative Investments

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

	2014			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Fixed income funds (A)	\$ 31,939		Various from once monthly to illiquid	Various from 10 to 30 days, if allowable
U.S. equity funds (B)	94,552		Various from semi-monthly to quarterly	Various from 5 to 60 days
International equities funds (C)	217,793		Various from any valuation day to quarterly	Various from 10 to 60 days
Equity long/short hedge funds (D)	54,974		Various from quarterly to illiquid	Various from 30 to 60 days, if allowable
Multi-strategy hedge funds (E)	94,102		Various from monthly to illiquid	Various from 15 to 90 days
Natural resources funds (F)	33,607	\$ 8,351	Various from any valuation day to illiquid	Various from 10 to 90 days, if allowable
Opportunistic hedge funds (G)	29,580	5,832	Various from quarterly to illiquid	Various from 45 to 90 days, if allowable
Private equity funds (H)	71,045	60,415	Illiquid	N/A

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
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

- 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 \$31.9 million of the amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days.
- B. This category includes two investments in U.S. equities, with one focused on large cap and the other on small- and mid-cap. All securities are traded on U.S. exchanges. The large cap investment, valued at \$86.1 million on June 30, 2014, 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 51% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 45% of the funds invested can be redeemed monthly with 15 to 60 days prior notice. The remaining investment is redeemable at calendar year quarter ends with 60 days prior notice.
- D. This category includes investments in hedge funds that take both long and short positions in global equities and other securities. Most funds in this category use margin and other forms of leverage as well as various derivatives, including swaps, options, futures and forward contracts when deemed appropriate by the respective manager. Investments representing 78% of the value of the investments in this category have quarterly lockup periods as of June 30, 2014. Another investment, totaling \$1.2 million is illiquid. The remaining investment 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. Approximately 9% of investments in this category can be redeemed

monthly with prior notification of 15 days. An investment representing 14% 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. Approximately 21% of investments in this category can be redeemed at calendar year quarter ends with prior notification of 45 to 65 days. Approximately 45% of the investments in this category can be redeemed every 12 months with prior notification of 45 to 90 days. Approximately 11% of investments in this category can be redeemed every 24 months with 90 days notification.

- F. This category includes a multi-strategy natural resources fund of funds, private oil & gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals, and agricultural commodities. The funds typically invest in both the infrastructure and production facilities as well as in the actual metal, commodity or resource. Approximately 27% 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. Four of these funds, with a combined value of \$5.9 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 2023. Distributions from each fund are made as the underlying investments of the funds are liquidated. One other fund, with a value of \$5.7 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 \$21.3 million is equally invested among 11 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2013 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, 2014 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2014 are \$60.4 million, which is expected to be drawn over the next 5 years.

3. Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of

unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013 (in thousands):

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

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

Following is a description of the inputs and valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. For assets classified as Level 3 of the fair value hierarchy, the process used to develop the reported fair value is disclosed below.

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

a. Money Market Mutual Funds

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

b. Investments

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

For investments other than marketable alternatives and investments in partnerships, the inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. For marketable alternatives and investments in partnerships

that have sufficient activity or liquidity within the fund, fair value is determined using the net asset value (or its equivalent) provided by the fund and are classified within Level 2 of the valuation hierarchy. Level 2 securities include corporate bonds, U.S. government securities, certain investments in partnerships and certain marketable alternative investments.

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

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

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2014 and 2013. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation as the sole beneficiary of the majority of the trusts. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

d. Restricted Investments

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

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs (in thousands):

	Investment in partnerships and funds of funds	Marketable alternatives	Preferred and common stock
Balance, July 1, 2013	\$ 231,758	\$ 84,841	\$ 2,025
Total realized and unrealized gains and losses	26,292	8,120	(1,668)
Purchases	19,011	21,025	2,077
Sales	(29,316)	(12,961)	-
Transfers	(54,961)	-	204
Balance, June 30, 2014	<u>\$ 192,784</u>	<u>\$ 101,025</u>	<u>\$ 2,638</u>
Total gains/(losses) for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	<u>\$ 17,315</u>	<u>\$ 8,144</u>	<u>\$ (436)</u>
	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	<u>\$ 231,758</u>	<u>\$ 84,841</u>	<u>\$ 2,025</u>
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	<u>\$ 14,999</u>	<u>\$ 10,487</u>	<u>\$ (907)</u>

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

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

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

Unobservable (Level 3) Inputs

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

	<u>Fair Value at 6/30/14</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Investment in partnerships and funds of funds	\$ 192,784	Net asset value or equivalent	NAV	N/A
Marketable alternatives	101,025	Net asset value or equivalent	NAV	N/A
Preferred and common stock	2,638	Net asset value or equivalent	NAV	N/A
	<u>Fair Value at 6/30/13</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Investment in partnerships and funds of funds	\$ 231,758	Net asset value or equivalent	NAV	N/A
Marketable alternatives	84,841	Net asset value or equivalent	NAV	N/A
Preferred and common stock	2,025	Net asset value or equivalent	NAV	N/A

Fair Value of Financial Instruments

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

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

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

Cash and Cash Equivalents:

The carrying amount approximates fair value.

Loans Receivable:

The carrying amount approximates fair value.

Contributions Receivable:

Fair value is estimated using a discounted cash flow model.

Investments:

The carrying amount approximates fair value.

Funds Held in Trust for Others:

The carrying amount approximates fair value.

Restricted Investments:

The carrying amount approximates fair value.

Bonds and Notes Payable:

Fair value is estimated based on the borrowing rates currently available to the Foundation for bank loans with similar terms and maturities.

Funds Held in Trust for Others:

The carrying amount approximates fair value.

Annuities and Trusts Payable:

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

4. Bonds Payable

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

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

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

a. Bonds Payable - ULH

ULH's outstanding bonds are secured by deposits with the bond trustee, which are reported in restricted investments in the consolidated statements of financial position as of June 30, 2014 and 2013 and mortgages on the respective properties.

b. Bonds Payable – ULF

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

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

ULF's outstanding bonds are secured by deposits with the bond trustee, which are reported in restricted investments in the consolidated statements of financial position as of June 30, 2014.

c. Notes Payable - TNRP

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

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

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

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

d. Notes Payable - AAF

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

e. Notes Payable - KYT

In November 2008, KYT entered into a note payable with a financial institution to borrow \$12.5 million in relation to the purchase of property adjacent to the University. In November 2013, KYT agreed to a modification and extension agreement with the financial institution. The extended note bears a variable interest rate equal to the prime rate, 3.25% at June 30, 2014, per annum, payable monthly. The principal is due in full November 2016.

In November 2008, KYT entered into a note payable with a financial institution to borrow \$7.0 million in relation to the purchase of property adjacent to the University. In November 2013, KYT agreed to a modification and extension agreement with the financial institution. The extended note bears a variable interest rate equal to 2.25% through November 2014. Commencing on November 2014 and on each November thereafter through the term of the note, the interest rate shall equal 2% in excess of the financial institution's twelve month certificate of deposit rate. The principal is due in full November 2016.

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

f. Note Payable – ULF

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

g. Sapulpa Note Payable – ULF

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

h. Line of Credit – Nucleus

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

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

i. Line of Credit – ULF

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

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

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

For the Year Ended June 30,	Principal Due
2015	\$ 5,857
2016	2,491
2017	22,306
2018	2,907
2019	3,014
Thereafter	90,522
	<u>\$ 127,097</u>

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):

<u>Residence Hall</u>	<u>Aggregate limit</u>	<u>Annual limit</u>
Bettie Johnson Hall	\$ 18,880	\$ 2,877
Kurz Hall	12,235	938
Community Park	14,375	1,156

b. Notes Payable and Line of Credit

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

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

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

c. Loans

As of June 30, 2014, ULF guaranteed four loans related to student organizations. If the student organization does not meet its scheduled payments, ULF could be called upon to make the payments, as well as collection of expenses and costs. The total amount approved for loans was approximately \$1.6 million, with \$1.3 million and \$982,000 million outstanding, as of June 30, 2014 and 2013, respectively.

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

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

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

d. Association Mortgage Revenue Bonds

In July 2008, the Louisville Metro Government issued \$39.8 million of Mortgage Revenue Bonds 2008 Series A and \$43.5 million of Mortgage Revenue Bonds 2008 Series B (Mortgage Revenue Bonds) at a combined net interest cost of 4.2%, the proceeds of which were loaned to the Association. The bond proceeds were used on September 1, 2008 to retire the Association's outstanding County of Jefferson Kentucky Government Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa John's Cardinal Stadium (Stadium). Excess funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Stadium.

The Foundation is the guarantor of the Mortgage Revenue Bonds, and as such has agreed to maintain a balance of available cash sufficient enough to cover the next debt service payment. In exchange for the Foundation's willingness to serve as guarantor, the Association has agreed to pay the Foundation a credit enhancement fee and to exonerate and indemnify the Foundation from all liability in connection with the Mortgage Revenue Bonds, the obligations of the Association under the Loan Agreement and Mortgage, and any and all payments made by the Foundation as guarantor.

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

e. Lease Guarantee

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

6. Funds Held in Trust by Others

The Foundation has been designated by the University as the income beneficiary of various trusts and financial entities which are held and controlled by others. One of these is a perpetual and irrevocable trust known as the University of Louisville Trust (Trust). It was created in 1983 to receive, administer, and invest assets which result from gifts to the Trust. The market value of the Trust was approximately \$21.5 million and \$19.0 million as of June 30, 2014 and 2013, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$31.0 million and \$27.8 million as of June 30, 2014 and 2013, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2014 and 2013, the Foundation received income of approximately \$2.2 million, from these trusts. These receipts are included in net realized and unrealized gain on investments.

7. Funds Held in Trust for Others

The Foundation is the custodian of funds owned by the Association. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic

activities of the University. The Foundation serves in an agency capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2014 and 2013, the Foundation held approximately \$34.3 million and \$32.7 million for the Association's investment purposes, respectively.

During the year ended June 30, 2005, the Foundation entered into an agreement with Jewish Hospital & St. Mary's Healthcare, Inc. (Jewish Hospital) whereby the Foundation serves in an agency capacity to invest funds on behalf of Jewish Hospital. Jewish Hospital is a separate corporation organized for the purpose of providing healthcare services. As of June 30, 2014 and 2013, the Foundation held approximately \$10.5 million and \$9.7 million, respectively, for Jewish Hospital's investment purposes.

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

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

c. University of Louisville Physicians, Inc.

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

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

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

1. Charity Care

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

2. Investment in Kentuckiana Medical Reciprocal Risk Retention Group

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

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

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

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

3. Line of Credit

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

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

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

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

4. Long-term Debt

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

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

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

2015	\$ 2,233
2016	2,032
2017	-
2018	280
	<u><u>\$ 4,545</u></u>

5. Net Patient Service Fees Revenue

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

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

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

6. Related Party Transactions

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

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

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

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

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

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

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

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

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

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

12. Risk Management

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

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

University medical and dental students, residents, and most School of Medicine faculty are insured against medical malpractice by a captive liability insurer. Other faculty, agents, and certain non-physician employees are insured against medical malpractice by commercial insurance. The University also has the benefit of an excess coverage fund established by the Commonwealth of Kentucky.

The University is self-insured for the medical benefits provided to employees. The cost of such self-insured benefits provided during the years ended June 30, 2014 and 2013, respectively, was approximately \$57.8 million and \$54.0 million, including \$5.0 million and \$4.5 million accrued for estimated claims incurred but not reported, included in accounts payable and accrued liabilities in the statements of net position.

13. Natural Classification

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

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

14. Retirement Plans

a. Defined Contribution Plan

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

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

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

b. Prior Service Defined Benefit Program

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

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

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

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

15. Postemployment Healthcare Benefits

a. Plan Description

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

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

b. Funding Policy

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

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

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

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

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

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

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

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

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

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

d. Funded Status and Funding Progress

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

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

e. Actuarial Methods and Assumptions

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

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

16. Health Science Center Affiliations and Agreements

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

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

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

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

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

Concurrently with the academic affiliation agreement and joint operating agreements, the Commonwealth and the University as lessor amended and restated the lease agreement with UMC to lease the Hospital. The annual lease payment is \$6.5 million through December 31, 2016. At that time, the annual rent escalates by \$500,000 and will continue to escalate every five years thereafter up to \$8.0 million. Included in the joint operating agreement is a provision that \$5.0 million of the annual rent payment will flow to the Quality and Charity Care Trust. The lease provides for additional rent each year to be adjusted annually commensurate with the increase or decrease in the utilities and other operating expenses of the leased property. The University is required to pay KentuckyOne any amounts related to the

utilities and other operating expenses collected from third parties. Lease revenue, net of the amounts sent to the Quality and Charity Care Trust, was \$4.4 million and \$1.5 million for the years ended June 30, 2014 and 2013, and is included in clinical services and practice plan revenues in the statements of revenues, expenses, and changes in net position. Lease expense for the year ended June 30, 2014 was \$1.1 million and is included in public service expense in the statements of revenues, expenses, and changes in net position.

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

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

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

b. Quality and Charity Care Trust Transfers for Hospital Operations

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

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

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

c. Cardiovascular Innovation Institute

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

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

17. Leases

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

a. Kentucky State Fair Board

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

b. Central Station, LLC

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

c. Louisville Arena Authority, Inc.

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

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

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

d. Future Minimum Lease Payments

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

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

18. Restatement of Prior Years' Financial Statements

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

19. Commitments and Contingencies

a. Commitments

At June 30, 2014, the University had approximately \$28.0 million in encumbrances outstanding for future expenditures.

b. Litigation

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

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

c. Government Grants

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

20. Recent Accounting Pronouncements

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

21. Subsequent Event

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

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

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