UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

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

UNIVERSITY OF LOUISVILLE AND AFFILIATED CORPORATIONS

A Component Unit of the Commonwealth of Kentucky

Table of Contents:

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

(Continued)

Opinions

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

Emphasis of matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

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

Crowe Horwath LLP

Crowe Horwath LLP

Louisville, Kentucky
November 18, 2016

Introduction

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

Using the Financial Statements

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

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

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

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

See footnote 1 for a summary of significant accounting policies.

Statements of Net Position

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

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

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

Assets

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

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

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

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

Capital assets, net of accumulated depreciation, represent 71% of total assets. Other noncurrent long-term investments, noncurrent loans, accounts and contributions receivable and restricted cash and cash equivalents comprise the remainder of assets.

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

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

Deferred Outflows of Resources

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

Liabilities

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

Noncurrent liabilities consist primarily of the portion of bonds, notes, and leases payable in excess of one year. In fiscal year 2016 the $4.4 million decrease in noncurrent liabilities is due to the decrease in bonds and notes payable. Bonds, notes and leases payable decreased for maturities totaling $103.5 million partially offset by additions during the year of $99.6 million. In fiscal year 2015 the $8.3 million increase in noncurrent liabilities relates primarily to the $20.2 million increase in advances offset by the $15.2 million decrease in bonds and notes payable. Advances increased for unspent funding received from KentuckyOne Health under the Academic Affiliation Agreement. Bonds and notes payable decreased for principal maturities during the year.

Deferred Inflows of Resources

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

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

Net Position

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

- *Net Investment in Capital Assets* represents the University's investment in capital assets such as land, buildings, equipment and depreciable library materials, net of accumulated depreciation, related deferred outflows of resources reduced by related deferred inflows of resources and debt attributable to the acquisition, construction, or improvement of those assets.

- *Restricted-nonexpendable* funds include amounts that are subject to externally imposed restrictions that require the University to maintain the assets in perpetuity. These balances are the permanent endowment for scholarships and other purposes.

- *Restricted-expendable* funds are those that are subject to externally imposed restrictions governing their use for a particular purpose or period of time. The University's most significant components in this category consist of amounts restricted for capital projects debt service, research, and public service.

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

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

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

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

Statements of Revenues, Expenses and Changes in Net Position

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

Condensed Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2016, 2015, and 2014

(In Thousands)

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

Operating Revenues

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

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

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

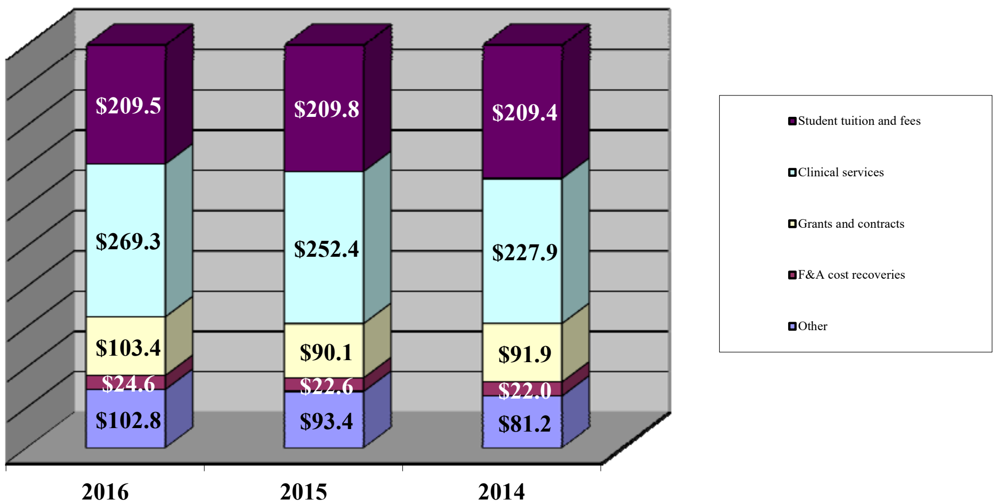
Clinical services and practice plan revenue amounted to $269.3 million and $252.4 million, or about 38% of total operating revenues for each of the years ended June 30, 2016 and 2015. These revenues relate to patient care performed in clinics under contractual arrangements with governmental and private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

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

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

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

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

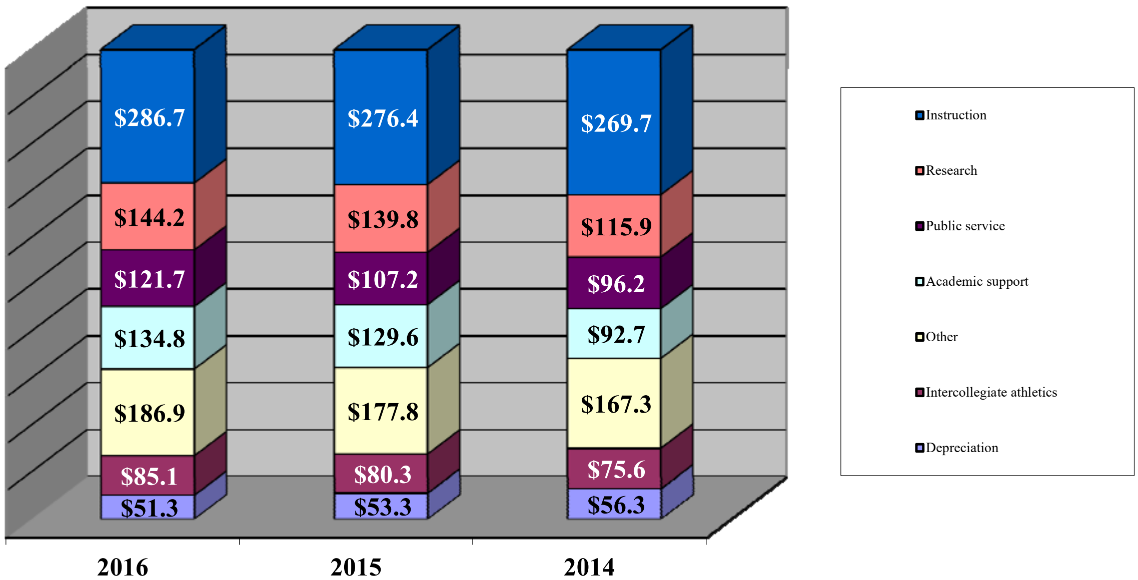


Operating Expenses

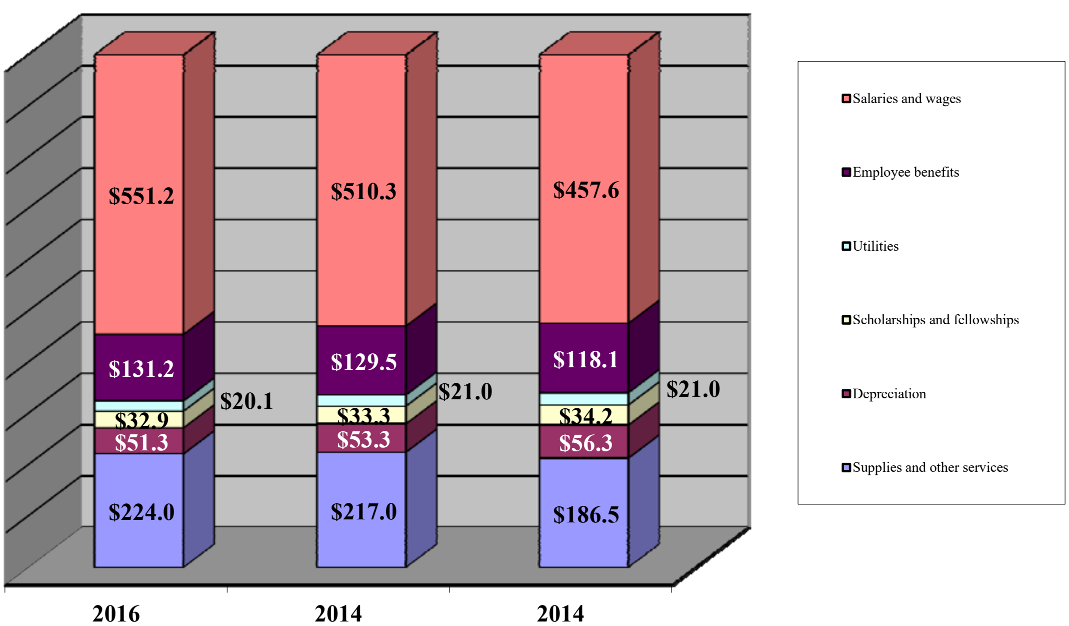
Operating expenses were $1.0 billion and $964.4 million and exceeded operating revenues by $301.1 million and $296.0 million for the years ended June 30, 2016 and 2015, respectively. When offset by total non-operating revenues of $314.0 million and $308.8 million, total net position for the year increased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

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

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



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



Nonoperating Revenues (Expenses)

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

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

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

Statements of Cash Flows

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

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

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

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

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

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

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

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

Capital Asset and Debt Administration

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

COMPLETED IN 2016		
Ekstrom Library 1st Floor Renovation	$	2,200,000
MDR 4th Floor Renovation - Phase 5		705,000
K-Wing 2nd Floor Classroom Renovation		1,075,000
Resurface Running Track at Cardinal Park		910,000
COMPLETED IN 2015		
Donald Baxter Cleanroom Expansion	$	960,000
Soccer Stadium		19,800,000
HSC Instructional Building Classroom Renovation		8,600,000
Center for Predictive Medicine Expansion		9,500,000

IN PROGRESS FOR 2016

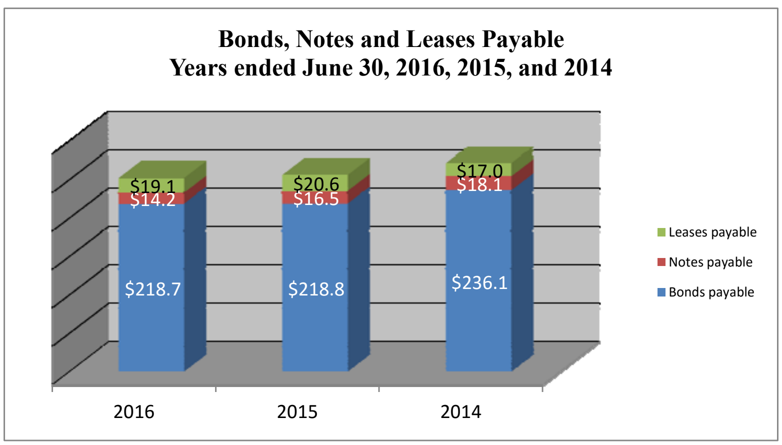
Belknap Classroom Building	$ 80,500,000
Athletic Academic Center	19,300,000
Student Activity Center Renovation	40,000,000
Ekstrom Library 3rd Floor Renovation	2,750,000
MDR Building Masonry Restoration	2,080,000
Donald Baxter Building Cardiology GMP Facility	2,200,000

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

Debt and Financing Activities

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

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



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

Component Units

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

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

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

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

Economic Factors That May Affect the Future

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

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

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

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