UNIVERSITY OF LOUISVILLE
FOUNDATION, INC. AND AFFILIATES

Accountants' Report and Consolidated Financial Statements

June 30, 2012 and 2011

University of Louisville Foundation, Inc. and Affiliates

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Independent Accountants' Report

Board of Directors
University of Louisville Foundation, Inc. and Affiliates
Louisville, Kentucky

We have audited the accompanying consolidated statements of financial position of University of Louisville Foundation, Inc. and Affiliates (Foundation) as of June 30, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

BKD, LLP

October 3, 2012

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

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

See notes to consolidated financial statements

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

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

See notes to consolidated financial statements

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (27,016)	$ 98,475
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses/(gains) on investments	5,922	(131,269)
Depreciation and amortization expense	4,804	4,659
Loss on disposals of capital assets	44	192
Transfer of capital assets to affiliates	82	66
Contributions restricted for long-term investment	(9,192)	(12,846)
Net additions to annuitant & unitrust funds	1,094	225
Change in present value of annuitant & unitrust payments	(1,127)	1,264
Change in assets and liabilities:		
Accounts, notes, and accrued interest receivable	(817)	40
Prepaid expenses and other	(15)	123
Contributions receivable	6,888	1,334
Other assets	(561)	64
Accounts payable	(140)	(2,654)
Funds held in trust for others	2,293	(3,281)
Other liabilities	2,664	2,534
Due to University of Louisville	(4,035)	8,644
Net cash used in operating activities	(19,112)	(32,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(120,128)	(106,719)
Sales of investments	147,408	118,900
Purchases of capital assets	(18,178)	(4,000)
Payments received on loan receivable from University of Louisville Athletic Association, Inc.	305	500
Net cash provided by investing activities	9,407	8,681
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowment	9,192	12,846
Payments to annuitants	(689)	(725)
Proceeds from issuance of bonds and notes payable	17,046	-
Principal payments of bonds and notes payable	(9,744)	(1,451)
Net cash provided by financing activities	15,805	10,670
Net increase/(decrease) in cash and cash equivalents	6,100	(13,079)
Cash and cash equivalents at beginning of year	3,543	16,622
Cash and cash equivalents at end of year	$ 9,643	$ 3,543
Supplemental cash flow data:		
Cash paid for interest	$ 3,760	$ 3,861

See notes to consolidated financial statements

1. Organization and Summary of Significant Accounting Policies

    a. Organization

    The accompanying 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), and Minerva-Louisville, LLC (Minerva), (collectively "Foundation"). All material intercompany balances and transactions have been eliminated in consolidation. ULF has been designated by the University of Louisville (the University) to receive funds derived from gifts and other sources, including funds held in trust by others. The Foundation is presented in the financial statements of the University as a discretely presented component unit.

    As directed by its Board of Directors, the Foundation transfers funds to the University in satisfaction of donor restrictions. In addition, a portion of the unrestricted resources of the Foundation provides support for a variety of University activities.

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

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

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

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

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

MetaCyte Equity is a limited liability company formed in February 2006. Its purpose is to hold the equity shares obtained by MetaCyte through development with start-up corporations. As of June 30, 2012 no equities have been transferred and MetaCyte Equity has had no activity since inception.

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

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

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

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

b. Cash and Cash Equivalents

The Foundation considers all liquid investments (not held for long-term purposes) with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market funds.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. At June 30, 2012 the Foundation's interest-bearing cash accounts exceeded federally insured limits by approximately $6.8 million.

c. Investments and Investment Return

Investments in marketable debt and equity securities are stated at current market value. Investments in real estate through limited partnerships are stated at appraised market values, while other real estate investments are stated at cost on the date of acquisition or fair market value at date of receipt in the case of gifts. Investments in joint ventures in which the Foundation has 20% - 50% ownership are recorded using the equity method. Securities not publicly traded, certificates of deposit, and investments in which the Foundation has less than 20% ownership are stated at cost, which approximates market. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the consolidated statements of activities.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

d. Nonconsolidated Variable Interest Entities

The Foundation holds a variable interest in a joint venture accounted for under the equity method of accounting, acquired through the creation of Campus One, LLC in October 2010. The joint venture builds and manages rental properties on the University's Shelby campus. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. The Foundation is not the primary beneficiary, as a majority of the joint venture's daily operations are conducted by the other partner, and therefore the entity is not consolidated. At June 30, 2012 and 2011, the Foundation's investment in the joint venture was $4.8 million and $1.0 million, respectively, and is included in investments in the accompanying consolidated statements of position.

e. Capital Assets

Capital assets are stated at cost or estimated market value at date of receipt from donors. The provision for depreciation on capital assets is calculated using the straight-line method based on their estimated useful lives.

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

	FY 2012	**FY 2011**
Interest capitalized	$ 25	
Interest charged to expense	3,770	$ 3,834
	$ 3,795	$ 3,834

f. Deferred Revenue

Deferred revenue, which is included in other liabilities in the consolidated statements of financial position, consists of revenue related to a lease of land by the Foundation, and is recognized evenly over the life of the lease.

g. Unrestricted Net Assets

Net appreciation on endowment funds is reported as unrestricted net assets, unless such net appreciation has been restricted by the donor or by law. Market appreciation on unrestricted endowment funds is included in unrestricted net assets in the accompanying consolidated financial statements. In those cases where a donor has placed restrictions on the use of endowment income, any related net appreciation is also subject to the same restriction and is reported as such.

h. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those which have donor-imposed restrictions that will expire in the future, when either the time restriction or purpose restriction has been met, and permanently restricted net assets are those which have donor-imposed restrictions which do not expire.

The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donor-imposed restricted contributions and endowment income are reported as unrestricted support if the restrictions are met in the same period as the funds are received.

i. Unrestricted Bequests

The Foundation follows the policy of designating all unrestricted bequests of $100,000 or greater as funds functioning as endowments.

j. Use of Estimates

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

k. Market Risk and Uncertainties

The Foundation invests in various corporate debt, equity and mutual fund securities, among other investments. 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 those changes could materially affect the amounts reported in the consolidated financial statements.

l. In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of library materials and other educational equipment and supplies from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its consolidated financial statements, and similarly increase gift revenue by a like amount. The Foundation received approximately $2.0 million and $2.1 million of in-kind gifts for the years ended June 30, 2012 and 2011, respectively.

During the fiscal year ended June 30, 2012, the Foundation received the use of certain software applications. Per Foundation policy, no amounts were recognized as revenue.

m. Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, and scholarships/fellowships categories based on donor intent and other methods.

n. Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

o. Tax Status

ULF, ULH, and UHI have received favorable determination letters from the Internal Revenue Service exempting them from federal income taxes under §501(c)(3) of the Internal Revenue Code and a similar provision of state law.

ULDC, Nucleus, Metacyte Equity, AAF, KYT, PPL, and Minerva are single-member limited liability companies of the Foundation, who are considered disregarded entities for tax purposes. The Foundation is subject to federal income tax on any unrelated business taxable income. MetaCyte, a single-member limited liability company of the Foundation, has elected corporate status for tax purposes, and pursuant to this election, is subject to corporate income tax.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examination by tax authorities prior to fiscal year 2009.

p. Reclassifications

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

2. Due to the University

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

3. Loans Receivable from the University of Louisville Athletic Association, Inc. (Association)

In January, 1999, the Foundation made an $8.5 million unsecured, noninterest bearing loan to the Association, an affiliate of the University, for the construction of Cardinal Park, due upon collection of contributions. The Association's intent is to repay the $8.5 million loan with future contributions and gifts. For the years ended June 30, 2012 and 2011, the Association repaid $0.3 million and $0.5 million, respectively, leaving an outstanding loan balance of approximately $1.4 million and $1.7 million as of June 30, 2012 and 2011, respectively.

Additionally, in July 2001, the Association obtained a $347,000 unsecured, noninterest bearing loan from the Foundation for the refurbishing of the Cardinal Basketball offices. The outstanding loan balance is approximately $316,000 for each of the years ended June 30, 2012 and 2011.

4. Contributions Receivable

Contributions receivable are discounted, using rates on risk-free obligations ranging from 1.2% to 5.9% for 2012 and 2011. Contributions receivable, which are all temporarily restricted, as of June 30, 2012 and 2011 are as follows (in thousands):

	2012	**2011**
Less than one year	$ 20,190	$ 21,964
One to four years	12,372	20,831
Greater than four years	4,763	7,996
Allowance for doubtful accounts	(5,934)	(11,391)
Unamortized discount	(2,218)	(3,339)
Net contributions receivable	$ 29,173	$ 36,061

Conditional promises of gifts depend on the occurrence of a specific and uncertain event. The Foundation has not recorded these types of gifts in the consolidated financial statements. As of June 30, 2012 and 2011 the approximate fair market value of these conditional gifts is as follows (in thousands):

	2012	**2011**
Bequests	$ 125,317	$ 117,291
Other	6,454	3,112
Total	$ 131,771	$ 120,403

5. Endowments

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

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

The composition of net assets by type of endowment fund at June 30, 2012 and 2011 was (in thousands):

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

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

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

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

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

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the fair value level that the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated to $6.1 million and $1.2 million at June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

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

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

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average fair value over the prior three years through the calendar year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation balances the long-term expected return on its endowment against the level of expenditures required to support the University's goals and objectives. Recognizing that markets are volatile, the Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. For the fiscal year ended June 30, 2012, the Foundation Board of Directors approved a one-year modification to the spending policy, by eliminating the worst of the three years from the average fair value calculation. This modification was designed to dampen the reduction in allocated spending funds for the fiscal year, without damaging the long-term performance of the endowment.

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

Endowment Fund. The annual return for the Combined Endowment Fund was -0.8% and 20.8% in 2012 and 2011, respectively.

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

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

6. Investments and Investment Income

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

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

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

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

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

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

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

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

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

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

a. Alternative Investments

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

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

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

A. This category includes investments in attractive credit opportunities in investment grade corporate bonds, high yield bonds, bank loans, securitized bonds, strategic global fixed income opportunities in countries, currencies, sectors and securities as well as global credit arbitrage opportunities. Approximately $34.6 million of the amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days. The remaining $1.0 million is illiquid.

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

C. This category includes investments in international equities in emerging and developed markets across all capitalization classes. Approximately 62% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 35% of the funds invested can be redeemed monthly with 15 to 30 days prior notice. The remaining investments are redeemable at calendar year quarter ends with 60 days prior notice.

D. This category includes investments in hedge funds that take both long and short positions in global equities and other securities. Most funds in this category use margin and other forms of leverage as well as various derivatives, including swaps, options, futures and forward contracts when deemed appropriated by the respective manager. An investment representing 13% of the value of the investments in this category has a lockup period of 6 months as of June 30, 2012. Two other investments, totaling $3.5 million are illiquid investments. The remaining investments in this category can be redeemed at calendar year quarter ends with prior notification from 30 to 60 days.

E. This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. An investment representing 17% of the value of this category can only be redeemed annually on the anniversary date, with prior notification of 45 days, due to agreements with the management of the funds. Two investments representing 35% of this category can be redeemed annually at June 30, with prior notification of 45 to 60 days. Another investment, with a market value of $0.8 million, is illiquid. The remaining funds can be redeemed monthly or at the calendar year quarter ends with notification of 15 to 65 days.

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

G. This category includes investments in distressed-securities, -real estate and -credit. As a class, these investments strive to find U.S. and non-U.S. financial assets, real estate, debt obligations and securities that are inefficiently priced as a result of business, financial, market or legal uncertainties. Investments will include publicly traded securities and private investments. Three of these funds, with a combined value of $7.7 million, can never be redeemed prior to partnership termination as specified in the limited partnership agreements. These funds have expected partnership maturities in 2012 and 2017. Distributions from each fund are made as the underlying investments of the funds are liquidated. One other fund, with a value of $4.4 million is available quarterly with advance notice of 45 days. All remaining investments in this class can be redeemed on their respective annual anniversaries of investment with 90 days prior notice.

H. This category includes several funds that invest in private equity of U.S. companies, international companies and U.S. real estate. Also included are several funds focusing on U.S. venture capital opportunities. One fund specializes in mezzanine debt for mid-cap U.S. companies. Approximately $24.1 million is equally invested among 12 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2012 to 2027. Distributions from each fund will be made as the underlying investments of the funds are liquidated. All funds are commitment based investments with managers calling down commitments as investment opportunities arise. The June 30, 2012 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2012 are $31.2 million, which is expected to be drawn over the next 5 years.

7. Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

a. Money Market Mutual Funds

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

b. Investments

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

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

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

c. Funds Held in Trust By Others

Fair value is determined at the market value of the securities held in the beneficial trusts at June 30, 2012 and 2011. The value is determined based on the proportional beneficial interest held in the trust, with the Foundation 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. agency obligations. The Level 2 securities are based on quoted market prices and are based on a pricing service and use inputs as described above.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011 (in thousands):

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

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

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

	Investment in partnerships and funds of funds	Marketable alternatives	Preferred and common stock
Balance, July 1, 2011	$ 151,354	$ 141,255	$ 3,577
Total realized and unrealized gains and losses	14,774	(3,771)	(1,473)
Purchases	38,813	7,000	-
Sales	(20,946)	(14,706)	-
Settlements	-	(309)	-
Balance, June 30, 2012	$ 183,995	$ 129,469	$ 2,104
Total gains/(losses) for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ 7,887	$ (3,719)	$ (1,473)

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

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

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

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

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

Loan Receivable:
The carrying amount approximates fair value.

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

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

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

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

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

8. Funds Held in Trust by Others

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

9. Capital Assets

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

	2012	2011
Residence halls:		
Buildings	$ 51,194	$ 51,024
Furniture and fixtures	3,800	3,681
Construction in process	76	106
Accumulated depreciation	(15,547)	(13,897)
Net	39,523	40,914
Other:		
Land	29,592	24,573
Land held for construction	6,590	7,555
Buildings	31,953	31,362
Other plant assets	34,021	29,505
Construction in process	10,948	2,446
Accumulated depreciation	(19,761)	(16,770)
Net	93,343	78,671
Total - net	$ 132,866	$ 119,585

Pursuant to the lease agreement, ULH agreed to pay the University annual ground rental equal to available excess cash flow, as defined in the agreement. For the years ended June 30, 2012 and 2011, ULH recognized ground rental expense of approximately $0.1 million and $1.2 million, respectively.

10. Funds Held in Trust for Others

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

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

During the year ended June 30, 2011, the Foundation was the recipient of endowed funds, the income of which shall be used in support of the Louisville Orchestra. As of June 30, 2012 and 2011, the Foundation held approximately $0.2 million and $0.3 million, respectively, for the benefit of the Louisville Orchestra.

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

11. Bonds and Notes Payable

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

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

a. Bonds Payable

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

b. Notes Payable - AAF

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

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

c. Notes Payable - KYT

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

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

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

d. Note Payable – ULF

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

e. Line of Credit – Nucleus

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

f. Line of Credit – ULF

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

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

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

For the Year Ended June 30,	**Principal Due**
2013	$ 5,761
2014	38,314
2015	1,886
2016	1,991
2017	2,061
Thereafter	40,874
	$ 90,887

12. Guarantees

a. Bonds Payable

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

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

b. Notes Payable and Line of Credit

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

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

c. Loans

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

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

d. Association Mortgage Revenue Bonds

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

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

As of June 30, 2012 and 2011, the total amount outstanding on the Mortgage Revenue Bonds was $65.8 million and $71.6 million, respectively.

e. Lease Guarantee

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

13. Other Liabilities

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

	2012	2011
Unitrust and annuity obligations	$ 4,267	$ 4,989
Deferred revenue	7,206	5,390
Grawemeyer awards	1,204	1,894
Deferred compensation	7,979	6,449
Miscellaneous	31	26
Asset retirement obligation	285	285
Total	$ 20,972	$ 19,033

14. Annuities and Trusts Payable

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2012 and 2011 of approximately $1.7 million and $1.9 million, respectively, which represents the present value of the future annuity obligations. The liability has been determined using discounts rates ranging from 1.20% to 7.78%.

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trusts attributable to the future interest of the Foundation is recorded in the consolidated statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Foundation's consolidated statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The Foundation has recorded a liability at June 30, 2012 and 2011 of approximately $2.6 million and $3.1 million, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates ranging from 4.10% to 8.75%, a rate of return of 6.63%, and applicable mortality tables.

15. Research Challenge Trust Fund

The Research Challenge Trust Fund (RCTF) was created with the passage of the Postsecondary Education Improvement Act of 1997 (HB 1). The objectives of RCTF stated in the bill are to, among other things, support efforts by the University to become a premier, nationally recognized metropolitan university. During the 1998 session of the Kentucky General Assembly, a $100 million ($16.7 million to the University) endowment was appropriated from the General Fund Surplus Expenditure Plan of House Bill 321 in support of the research universities' (i.e. the University and other state supported colleges and universities) missions.

The University irrevocably contributed these RCTF funds to the Foundation, although earnings from these funds are designated for the University in perpetuity.

State government will provide endowment funds with the provision that the universities match them dollar-for-dollar with donations received to establish endowments for research activities.

16. Expenses

Expenses by natural classification for the years ended June 30, 2012 and 2011 were approximately (in thousands):

	2012	2011
Personnel costs	$ 45,076	$ 41,417
Services	24,983	28,111
Scholarships	8,825	7,985
Equipment repairs	1,307	1,245
Supplies	3,166	3,663
Depreciation and amortization	4,831	4,688
Interest	3,770	3,834
Contributions to various University departments	6,623	749
	$ 98,581	$ 91,692

17. Fundraising Expenses

Fundraising expenses were approximately $9.3 million and $8.4 million for the years ended June 30, 2012 and 2011, respectively.

18. Net Assets

Net assets of the Foundation are segregated into classes of unrestricted, temporarily restricted, and permanently restricted assets. The following tables describe the functional classifications of temporarily and permanently restricted net assets as to purpose based upon the intent of donors (in thousands) as of June 30, 2012 and 2011:

June 30, 2012:

	Temporarily Restricted	Permanently Restricted
Instruction	$ 17,812	$ 42,769
Research	87,687	193,570
Public service	1,279	2,815
Academic support	29,058	57,463
Student services	132	216
Institutional support	41,667	6,110
Scholarships/fellowships	40,204	90,376
Auxiliary operations & other	7,579	241
Total	$ 225,418	$ 393,560

June 30, 2011:

	Temporarily Restricted	Permanently Restricted
Instruction	$ 18,283	$ 41,290
Research	100,892	191,173
Public service	1,472	2,823
Academic support	33,786	57,088
Student services	214	214
Institutional support	49,858	5,714
Scholarships/fellowships	46,302	88,059
Auxiliary operations & other	133	323
Total	$ 250,940	$ 386,684

Donor imposed restrictions expired on temporarily restricted net assets during the years ended June 30, 2012 and 2011 as follows (in thousands):

	2012	2011
Temporarily restricted contributions for:		
Instruction	$ 2,365	$ 2,091
Research	10,909	10,191
Public service	127	116
Academic support	4,225	4,099
Student services	92	4
Institutional support	626	914
Operation and maintenance of plant	1,206	206
Scholarship/fellowships	6,159	5,691
Net decrease in contributions receivable	8,103	1,171
Total net assets released from restrictions	$ 33,812	$ 24,483

19. Change in Accounting Principle

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

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

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

20. Commitments

At June 30, 2012, the Foundation had approximately $571,000 in encumbrances outstanding for future expenditures.

21. Risks and Uncertainties

a. Current Economic Conditions

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

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

RECOMMENDATION TO THE UL FOUNDATION, INC., BOARD OF DIRECTORS CONCERNING THE AUDITED FINANCIAL STATEMENTS FOR YEAR ENDING JUNE 30, 2012 AND INDEPENDENT AUDITOR'S REPORT

Audit Committee – December 6, 2012
Board of Directors – December 6, 2012

RECOMMENDATION:

The President recommends that the Board of Directors approve the attached audited financial statements for the period ending June 30, 2012 and Independent Auditor's Report as presented by BKD.

Committee Action:
Passed:___X___
Did not Pass:_____
Other:_____
Date:______

Approved by:

____
Assistant Secretary

Board Action:
Passed:___X___
Did not Pass:_____
Other:_____
Date:______

Approved by:

____
Assistant Secretary