UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATES

Auditor's Report and Consolidated Financial Statements

June 30, 2014 and 2013

University of Louisville Foundation, Inc. and Affiliates

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the University of Louisville Foundation, Inc. and Affiliates (Foundation), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Louisville, Kentucky
September 29, 2014

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

ASSETS:	**2014**	**2013**
Cash and cash equivalents	$ 21,537	$ 27,303
Accounts, notes and accrued interest receivable	5,092	3,723
Loans receivable	16,178	2,008
Prepaid expenses	2,436	1,392
Contributions receivable	31,099	21,812
Investments	795,311	738,446
Funds held in trust by others	52,480	46,749
Restricted investments	7,069	5,473
Other assets	2,038	1,128
Capital assets, net	179,873	148,435
Total assets	$ 1,113,113	$ 996,469

LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 9,143	$ 6,232
Funds held in trust for others	45,104	42,685
Other liabilities	22,913	20,158
Due to University of Louisville	25,344	11,632
Bonds and notes payable	127,419	100,581
Total liabilities	229,923	181,288
Net Assets:		
Unrestricted:		
Unrestricted-designated	117,168	149,660
Unrestricted-undesignated	31,514	10,284
Total unrestricted	148,682	159,944
Temporarily restricted	308,821	248,622
Permanently restricted	425,687	406,615
Total net assets	883,190	815,181
Total liabilities and net assets	$ 1,113,113	$ 996,469

See notes to consolidated financial statements

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

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

See notes to consolidated financial statements

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 68,009	$ 32,051
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(116,736)	(73,436)
Depreciation and amortization expense	6,581	4,967
Loss (gain) on disposals of capital assets	60	(1,331)
Contributions restricted for long-term investment	-	(11,690)
Net (deductions) additions to annuitant & unitrust funds	(181)	410
Change in present value of annuitant & unitrust payments	829	987
Change in assets and liabilities:		
Accounts, notes, and accrued interest receivable	(1,363)	(1,353)
Prepaid expenses	(514)	(196)
Contributions receivable	(9,281)	7,361
Other assets	(902)	(131)
Accounts payable	2,912	1,908
Funds held in trust for others	(549)	(5,195)
Other liabilities	2,908	(1,449)
Due to University of Louisville	13,712	(5,845)
Net cash used in operating activities	(34,515)	(52,942)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(111,005)	(177,461)
Sales of investments	166,513	246,757
Purchases of capital assets	(38,019)	(21,395)
Proceeds from disposals of capital assets	-	2,226
Principal receipts from loan to University of Louisville Athletic Association, Inc.	200	200
Net cash provided by investing activities	17,689	50,327
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in endowments	-	11,690
Payments to annuitants	(782)	(765)
Proceeds from issuance of notes payable	62,993	10,989
Issuance of loan receivable	(14,404)	-
Principal payments of bonds and notes payable	(36,134)	(1,639)
Payment of bond issuance costs	(613)	-
Net cash provided by financing activities	11,060	20,275
Net increase (decrease) in cash and cash equivalents	(5,766)	17,660
Cash and cash equivalents at beginning of year	27,303	9,643
Cash and cash equivalents at end of year	$ 21,537	$ 27,303
Supplemental Cash Flow Information:		
Cash paid for interest (net of amount capitalized)	$ 4,124	$ 3,629

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), Louisville Medical Center Development Corporation (LMCDC), Minerva-Louisville, LLC (Minerva), The Nucleus Real Properties, Inc. (TNRP), CCG, LLC (CCG) and DCPA, LLC (DCPA) (collectively "Foundation"). All material intercompany balances and transactions have been eliminated in consolidation. ULF has been designated by the University 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), and in October 2012, ULDC became a 51% owner of Campus Two, LLC (Campus Two). These investments are recorded on the equity method, as ULDC is not considered the primary beneficiary.

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

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

MetaCyte Equity is a limited liability company formed in February 2006. Its purpose is to hold the equity shares obtained by MetaCyte through development with start-up corporations. As of June 30, 2014 no equities have been transferred and MetaCyte Equity has had no activity since inception.

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

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

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

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

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

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

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

DCPA is a limited liability company formed in May 2014, whose sole member is ULF. Its purpose is to serve as a vehicle for the efficient administration of various deferred compensation plans, agreements, and understandings.

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, 2014 and 2013, cash equivalents consisted primarily of money market funds.

At June 30, 2014, the Foundation's interest-bearing cash accounts exceeded federally insured limits by approximately $19.1 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. Investments for which the Foundation is not considered the primary beneficiary are also 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 variable interests in joint ventures accounted for under the equity method of accounting, acquired through the creation of Campus One, LLC in October 2010 and Campus Two, LLC in October 2012. The joint ventures build and manage rental properties on the University's Shelby campus. The variable interests relate to a cost-plus arrangement between the joint ventures and each joint venture partner.

The Foundation is not the primary beneficiary, as a majority of the joint ventures' daily operations are conducted by the other partner, and therefore the entity is not consolidated.

At June 30, 2014 and 2013, the Foundation's investment in the joint ventures was $2.6 million and $5.5 million, respectively, and is included in investments in the accompanying consolidated statements of financial position.

e. Equity Method Investment

In April 2014, the Foundation acquired 990 Class B units of Sapulpa Real Estate Holdings, LLC. This investment is recorded using the equity method of accounting and was approximately $3.5 million at June 30, 2014 and is included within investments in the accompanying consolidated statements of financial position.

f. 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 incurred was (in thousands):

	2014	**2013**
Interest capitalized	$ -	$ 736
Interest charged to expense	4,236	3,664
	$ 4,236	$ 4,400

g. Long Lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value.

No asset impairment was recognized during the years ended June 30, 2014 and 2013.

h. 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.

i. 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.

j. 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.

k. Unrestricted Bequests

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

l. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

n. 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.

o. 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 $2.8 million and $1.7 million of in-kind gifts for the years ended June 30, 2014 and 2013, respectively.

p. 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.

q. Subsequent Events

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

r. Tax Status

ULF, ULH, LMCDC, 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.

TNRP has applied for a favorable determination letter from the Internal Revenue Service exempting it from federal income taxes under §501(c)(3) of the Internal Revenue Code and a similar provision of state law. TNRP is subject to federal income tax on any unrelated business taxable income.

ULDC, Nucleus, Metacyte, Metacyte Equity, AAF, KYT, PPL, Minerva, CCG, and DCPA 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 2011.

s. Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

t. Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 consolidated financial statement 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 approximated $19.3 million and $11.6 million as of June 30, 2014 and 2013, respectively, and is recorded as an amount due to 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.

In June 2014, the Foundation entered into a Memorandum of Agreement with the University to receive a total of $29.0 million from the University. The unpaid balance on the payable bears simple interest equal to 75 basis points greater than the University's cash sweep interest rate. The term of the agreement is one year from the final transfer of funds to the Foundation. As of June 30, 2014, the outstanding balance is $5.8 million with an interest rate of 1.0 percent and is recorded within the due to University of Louisville in the consolidated statements of financial position.

3. Loans Receivable

a. Loans Receivable from the 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 each of the years ended June 30, 2014 and 2013, the Association repaid approximately $200,000, leaving an outstanding loan balance of approximately $1 million and $1.2 million as of June 30, 2014 and 2013, 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, 2014 and 2013.

b. Loan Receivable from Nucleus Innovation Investment Fund, LLC (NIIF)

In connection with TNRP's new market tax credit financing in September 2013, NIIF signed a $14.4 million promissory note payable to the Foundation. The note bears a fixed rate of 1% with interest only payments due quarterly through September 2020. Thereafter, NIIF will make quarterly payments of accrued interest and principal sufficient to fully amortize the remaining principal balance of the note. The note matures in December 2043.

4. Contributions Receivable

Contributions receivable are discounted, using rates on risk-free obligations ranging from .3% to 5.8% for 2014 and 2013. Contributions receivable, which are all temporarily restricted, as of June 30, 2014 and 2013 are as follows (in thousands):

	2014	2013
Less than one year	$ 16,145	$ 13,971
One to four years	11,789	11,361
Greater than four years	12,592	4,355
Allowance for doubtful accounts	(8,178)	(6,942)
Unamortized discount	(1,249)	(933)
Net contributions receivable	$ 31,099	$ 21,812

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, 2014 and 2013, the approximate fair market value of these conditional gifts is as follows (in thousands):

	2014	2013
Bequests	$ 223,972	$ 151,141
Other	2,217	2,532
Total	$ 226,189	$ 153,673

5. Endowments

The Foundation's endowment consists of approximately 2,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

The composition of net assets by type of endowment fund at June 30, 2014 and 2013 was (in thousands):

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

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

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

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

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

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

	2014	2013
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulations or UPMIFA	$ 425,687	$ 406,615
Termporarily restricted net assets - term endowment funds	$ 12,780	$ 11,629

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

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

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

The Foundation has a standing policy (the spending policy) of appropriating for expenditure each year 5.5% of its endowment fund's average fair value over the prior three years through the calendar year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation balances the long-term expected return on its endowment against the level of expenditures required to support the University's goals and objectives. Recognizing that markets are volatile, the Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. For the fiscal year ended June 30, 2014, the Foundation Board of Directors approved a modification to the spending policy, by eliminating the past carryover balance from the average fair value calculation. For the fiscal years ended June 30, 2014 and 2013, the Foundation Board of Directors approved a modification to the spending policy, by eliminating the worst of the three years from the average fair value calculation. This modification was designed to dampen the reduction in allocated spending funds for the fiscal year, without damaging the long-term performance of the endowment.

The Foundation has adopted an investment objective whereby the average annual return over the long term should equal the rate of inflation (measured by the three-year moving average of the Gross Domestic Product (GDP) Deflator) plus the average level of spending from the Combined Endowment Fund. The annual return for the Combined Endowment Fund was 16.5% and 10.8% in 2014 and 2013, respectively.

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

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

6. Investments and Investment Income

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

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

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

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

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

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

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

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

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

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

a. Alternative Investments

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

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

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

A. This category includes investments in attractive credit opportunities in investment grade corporate bonds, high yield bonds, bank loans, securitized bonds, strategic global fixed income opportunities in countries, currencies, sectors and securities as well as global credit arbitrage opportunities. Approximately $31.9 million of the amounts can be redeemed on a monthly basis with advanced notifications ranging from 10 to 30 days.

B. This category includes two investments in U.S. equities, with one focused on large cap and the other on small- and mid-cap. All securities are traded on U.S. exchanges. The large cap investment, valued at $86.1 million on June 30, 2014, is redeemable at calendar quarter end with 60 days prior notice. The other investment is redeemable twice per month with 5 days prior notice.

C. This category includes investments in international equities in emerging and developed markets across all capitalization classes. Approximately 51% of the funds invested can be redeemed on a daily basis with 10 to 30 days prior notice. Another 45% of the funds invested can be redeemed monthly with 15 to 60 days prior notice. The remaining investment is redeemable at calendar year quarter ends with 60 days prior notice.

D. This category includes investments in hedge funds that take both long and short positions in global equities and other securities. Most funds in this category use margin and other forms of leverage as well as various derivatives, including swaps, options, futures and forward contracts when deemed appropriate by the respective manager. Investments representing 78% of the value of the investments in this category have quarterly lockup periods as of June 30, 2014. Another investment, totaling $1.2 million is illiquid. The remaining investment in this category can be redeemed every 12 months with 45 days' notice.

E. This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Approximately 9% of investments in this category can be redeemed monthly with prior notification of 15 days. An investment representing 14% of the value of this category can only be redeemed annually on its anniversary, with prior notification of at least 45 days, due to agreements with the management of the funds. Approximately 21% of investments in this category can be redeemed at calendar year quarter ends with prior notification of 45 to 65 days. Approximately 45% of the investments in this category can be redeemed every 12 months with prior notification of 45 to 90 days. Approximately 11% of investments in this category can be redeemed every 24 months with 90 days notification.

F. This category includes a multi-strategy natural resources fund of funds, private oil & gas funds and a natural resources equity fund. Investments include both publicly traded securities as well as private equity and debt positions. In aggregate, these funds invest in all natural resources categories, including but not limited to, all forms of energy, precious and base metals, and agricultural commodities. The funds typically invest in both the infrastructure and production facilities as well as in the actual metal, commodity or resource. Approximately 27% of the investments are private lock up funds with projected partnership maturities ranging from 2018 to 2025. The remaining investments can be redeemed daily with 10 to 90-day prior notification.

G. This category includes investments in distressed-securities, -real estate and -credit. As a class, these investments strive to find U.S. and non-U.S. financial assets, real estate, debt obligations and securities that are inefficiently priced as a result of business, financial, market or legal uncertainties. Investments will include publicly traded securities and private investments. Four of these funds, with a combined value of $5.9 million, can never be redeemed prior to partnership termination as specified in the limited partnership agreements. These funds have expected partnership maturities in 2012 and 2023. Distributions from each fund are made as the underlying investments of the funds are liquidated. One other fund, with a value of $5.7 million is available at calendar quarters with advance notice of 45 days. All remaining investments in this class can be redeemed on their respective annual anniversaries of investment with 90 days prior notice.

H. This category includes several funds that invest in private equity of U.S. companies, international companies and U.S. real estate. Also included are several funds focusing on U.S. venture capital opportunities. One fund specializes in mezzanine debt for mid-cap U.S. companies. Approximately $21.3 million is equally invested among 11 funds of funds. The remaining investments in this category are direct investments in private equity, venture capital and mezzanine debt funds. All investments are in lockup funds with partnership maturities ranging from 2013 to 2027. Distributions from each fund will be made as the underlying investments of the funds are liquidated. All funds are commitment based investments with managers calling down commitments as investment opportunities arise. The June 30, 2014 fair value represents the market value of contributions made through that date. Unfunded commitments as of June 30, 2014 are $60.4 million, which is expected to be drawn over the next 5 years.

7. Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

Recurring Measurements

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

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

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

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

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

a. Money Market Mutual Funds

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

b. Investments

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

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

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

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

c. Funds Held in Trust By Others

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

d. Restricted Investments

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

Level 3 Reconciliation

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

	Investment in Partnerships and Funds of Funds	Marketable Alternatives	Preferred and Common Stock
Balance, July 1, 2013	$ 231,758	$ 84,841	$ 2,025
Total realized and unrealized gains and losses	26,292	8,120	(1,668)
Purchases	19,011	21,025	2,077
Sales	(29,316)	(12,961)	-
Transfers	(54,961)		204
Balance, June 30, 2014	$ 192,784	$ 101,025	$ 2,638
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	$ 17,315	$ 8,144	$ (436)

	Investment in Partnerships and Funds of Funds	Marketable Alternatives	Preferred and Common Stock
Balance, July 1, 2012	$ 183,995	$ 129,469	$ 2,104
Total realized and unrealized gains and losses	19,609	10,575	(916)
Purchases	59,603	2,000	837
Sales	(41,252)	(16,786)	-
Transfers	41,899	(40,417)	-
Settlements	(32,096)	-	-
Balance, June 30, 2013	$ 231,758	$ 84,841	$ 2,025
Total gains/(losses) for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ 14,999	$ 10,487	$ (907)

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

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

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

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at June 30, 2014 and 2013.

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

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

Fair Value of Financial Instruments

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

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

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

Cash and Cash Equivalents:

The carrying amount approximates fair value.

Loans Receivable:

The carrying amount approximates fair value.

Contributions Receivable:

Fair value is estimated using a discounted cash flow model.

Investments:

The carrying amount approximates fair value.

Funds Held in Trust for Others:

The carrying amount approximates fair value.

Restricted Investments:

The carrying amount approximates fair value.

Bonds and Notes Payable:

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

Funds Held in Trust for Others:

The carrying amount approximates fair value.

Annuities and Trusts Payable:

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

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 $21.5 million and $19.0 million as of June 30, 2014 and 2013, respectively. The Foundation's portion of the market value of the remaining trusts was approximately $31.0 million and $27.8 million as of June 30, 2014 and 2013, respectively. These funds are invested in various equities and income producing assets. For each of the years ended June 30, 2014 and 2013, the Foundation received income of approximately $2.2 million, from these trusts. These receipts are included in net realized and unrealized gain on investments.

9. Capital Assets

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

	2014	**2013**
Residence halls:		
Buildings	$ 51,392	$ 51,228
Furniture and fixtures	4,148	3,900
Construction in process	149	59
Accumulated depreciation	(18,499)	(16,957)
Net	37,190	38,230
Other:		
Land	43,652	33,657
Land held for construction	6,590	6,590
Buildings	63,862	31,774
Other plant assets	44,502	37,187
Construction in process	9,445	22,552
Accumulated depreciation	(25,368)	(21,555)
Net	142,683	110,205
Total - net	$ 179,873	$ 148,435

Pursuant to lease agreements, ULH agreed to pay the University annual ground rental equal to available excess cash flow, as defined in the agreements. For the years ended June 30, 2014 and 2013, ULH recognized ground rental expense of approximately $686,000 and $873,000, 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, 2014 and 2013, the Foundation held approximately $34.3 million and $32.7 million for the Association's investment purposes, respectively.

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

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

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

11. Bonds and Notes Payable

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

	Description	Fiscal Year of Maturity	2014	2013
Series 2005A (non taxable) - ULH	Principal payments of $270 to $1,010 are due annually beginning 6/1/16 through maturity, and interest is due monthly at fixed rates from 4% to 5%.	2035	$ 13,815	$ 13,815
Series 2005B (taxable) - ULH	Principal payments of $170 to $390 are due annually through maturity, and interest is due monthly at a fixed rate of 4.91%.	2016	560	900
Series 2009A (non taxable) - ULH	Principal payments of $445 to $900 are due annually through maturity, and interest is due semi-annually at fixed rates from 3% to 4.5%.	2033	12,235	12,645
Series 2010A (non taxable) - ULH	Principal payments of $830 to $2,815 are due annually through maturity, and interest is due semi-annually at a fixed rates from 3% to 4.4%	2030	18,880	19,690
Series 2013 (taxable) - ULF	Principal payments of $500 to $2,450 are due annually through maturity, and interest is due semi-annually at a fixed rates from .9% to 5.6%	2043	37,460	-

	Description	Fiscal Year of Maturity	2014	2013
CDE Note "A" - TNRP	Fixed rate of .73% with quarterly interest only payments of $6 through December 2020 then quarterly principal and interest payments $42 through maturity.	2044	3,518	-
PNC CDE Note "B" - TNRP	Fixed rate of .73% with quarterly interest only payments of $3 through December 2020 then quarterly principal and interest payments of $18 through maturity.	2044	1,482	-
NNMF Note "A" - TNRP	Fixed rate of .73% with quarterly interest only payments of $20 through December 2020 then quarterly principal and interest payments of $129 through maturity.	2044	10,886	-
NNMF Note "B" - TNRP	Fixed rate of .73% with quarterly interest only payments of $7 through December 2020 then quarterly principal and interest payments of $45 through maturity.	2044	3,964	-
Note Payable - AAF	Variable rate, with principal payment at end of note	2014	-	8,192
Note Payable - KYT	Variable rate, 3.25% as of June 30, 2014 with principal payment at end of note	2016	12,500	12,500
Note Payable - KYT	Variable rate, 2.25% as of June 30, 2014 with principal payment at end of note	2016	7,000	7,000
Note Payable - ULF	Annually adjustable fixed rate, 6.24% as of June 30, 2014, with principal and interest payments due monthly	2020	1,326	1,532
Sapulpa Note Payable - ULF	Variable rate, 3.25% as of June 30, 2014, with principal and accrued interest payment due at the end of the note	2015	3,471	-
Line of Credit - Nucleus	Variable rate, unsecured	2013	-	4,120
Line of Credit - ULF	Variable rate, with interest payments due monthly, matured October 31, 2013	2014	-	19,843
Total bonds and notes payable			127,097	100,237
Plus unamortized premium			322	344
Bonds and notes payable, net			$ 127,419	$ 100,581

a. Bonds Payable - ULH

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

b. Bonds Payable – ULF

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

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

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

c. Notes Payable – TNRP

TNRP, a qualified active low-income community business (QALICB), executed a loan agreement on September 12, 2013, that provides for borrowings totaling $5,000,000 from PNC CDE 28, LP (PNC) and $14,850,000 from NNMF Sub-CDE XX, LLC (NNMF). The loans will finance the expansion and renovation of the TNRP building. The loans are secured by a property deed of trust and security agreement filing on the property and a guaranty by the Foundation for obligations under the loan agreement. TNRP's loan balance is $19,850,000 at June 30, 2014.

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

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

d. Notes Payable - AAF

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

e. Notes Payable - KYT

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

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

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

f. Note Payable – ULF

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

g. Sapulpa Note Payable - ULF

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

h. Line of Credit – Nucleus

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

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

i. Line of Credit – ULF

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

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

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

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

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	$ 18,880	$ 2,877
Kurz Hall	12,235	938
Community Park	14,375	1,156

b. Notes Payable and Line of Credit

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

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

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

c. Loans

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

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

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

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

d. Association Mortgage Revenue Bonds

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

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

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

e. Lease Guarantee

In December 2006, the Foundation became the guarantor of payments due to University Faculty Office Building, LLC (UFOB) under the Master Lease agreement between the Medical School Practice Association, Inc. (MSPA) and UFOB. The Foundation has guaranteed the full and prompt payment of all amounts due to UFOB including any damages for default and payments to reimburse UFOB for any costs and expenses incurred by UFOB to cure any default by MSPA. The initial lease term is 15 years, which began 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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Unitrust and annuity obligations	$ 4,748	$ 4,899
Deferred revenue	7,263	7,209
Grawemeyer awards	987	1,011
Deferred compensation	8,953	6,703
Miscellaneous	677	51
Asset retirement obligation	285	285
Total	$ 22,913	$ 20,158

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, 2014 and 2013 of approximately $1.8 million and $2.2 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, 2014 and 2013 of approximately $2.9 million and $2.7 million, respectively, which represents the present value of the future obligations. The liability has been determined using discount rates ranging from 3.25% to 8.75%, a rate of return of 5.2%, and applicable mortality tables.

Contribution revenue recognized in gifts on the consolidated statements of activities under such agreements was $0 and $410,000 for the years ended June 30, 2014 and 2013, respectively.

16. Leasing Activities

TNRP leases space to tenants under noncancellable operating leases. As of June 30, 2014, TNRP had leases with six tenants. These leases expire in three to 17 years, through 2032. These leases generally require TNRP to pay all executory costs (property, taxes, maintenance and insurance).

Future leasing rent payments due to TNRP during the next five years and thereafter were as follows (in thousands):

For the year ending June 30,	Leasing Payments Due
2015	$ 1,339
2016	1,339
2017	1,285
2018	1,267
2019	1,257
Thereafter	5,927
Total	$ 12,414

17. Expenses

Expenses by natural classification for the years ended June 30, 2014 and 2013 were approximately (in thousands):

	2014	2013
Personnel costs	$ 59,047	$ 50,015
Services	30,668	26,869
Scholarships	9,915	10,142
Equipment repairs	881	1,643
Supplies	5,613	4,671
Depreciation and amortization	6,581	4,967
Interest	4,236	3,664
Contributions to various University departments	11,026	2,895
	$ 127,967	$ 104,866

18. Fundraising Expenses

Fundraising expenses were approximately $9.8 million and $7.9 million for the years ended June 30, 2014 and 2013, respectively.

19. <u>Net Assets</u>

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, 2014 and 2013:

	2014	
	Temporarily Restricted	**Permanently Restricted**
Instruction	$ 26,538	$ 48,222
Research	119,937	203,904
Public service	2,761	3,936
Academic support	46,277	60,380
Student services	215	224
Institutional support	41,256	6,606
Scholarships/fellowships	64,079	102,140
Auxiliary operations & other	7,758	275
Total	$ 308,821	$ 425,687

	2013	
	Temporarily Restricted	**Permanently Restricted**
Instruction	$ 20,448	$ 44,553
Research	99,983	197,833
Public service	2,069	3,638
Academic support	36,183	58,263
Student services	171	219
Institutional support	35,416	6,193
Scholarships/fellowships	48,072	95,662
Auxiliary operations & other	6,280	254
Total	$ 248,622	$ 406,615

Donor imposed restrictions expired on temporarily restricted net assets during the years ended June 30, 2014 and 2013 as follows (in thousands):

	2014	2013
Temporarily restricted contributions for:		
Instruction	$ 2,294	$ 2,628
Research	15,221	11,070
Public service	219	78
Academic support	3,851	3,999
Student services	30	15
Institutional support	8,385	569
Operation and maintenance of plant	2,987	2,927
Scholarship/fellowships	6,198	6,258
Net decrease in contributions receivable	-	6,454
Total net assets released from restrictions	$ 39,185	$ 33,998

20. Commitments

At June 30, 2014, the Foundation had approximately $1.6 million in encumbrances outstanding for future expenditures.

21. Subsequent Event

As discussed in Note 2, in June 2014, the Foundation entered into a Memorandum of Agreement with the University to receive a total of $29.0 million from the University. As of September 2014, the Foundation received the total amount from the University.