

20

BUILDING A STRONG FOUNDATION FOR THE FUTURE.

03

Dear Friends,

It is with great pleasure that I present to you the University of Louisville Foundation, Inc. annual report for 2002-2003.

For more than thirty years, the University of Louisville Foundation has been committed to the quality of university life. This report offers just a sample of the numerous initiatives the Foundation has funded to help the University and its students accomplish greater goals. The report showcases the success stories and introduces some of the students whose lives have been permanently touched through the generosity of our donors.

Your gifts and donations have made it possible to recruit:

- A \$15 million grant from the James Graham Brown Foundation to U of L's James Graham Brown Cancer Center for cancer research
- Over \$29 million for Hallmark, Overseers and other endowed scholarships for gifted students
- Over \$67 million in increased total funding for research
- Endowed chairs and professorships, increasing the total to 95
- An 11% overall increase in gifts and pledges over the last year.



It is the vision of the Foundation to provide support in shaping the University of Louisville into a preeminent metropolitan research university. Thanks to the contributions and philanthropy of our donors, we have significantly increased our endowment,

making it the largest among the public universities in Kentucky and among the top 20 public universities in the nation. The Foundation is the cornerstone for many of our accomplishments.

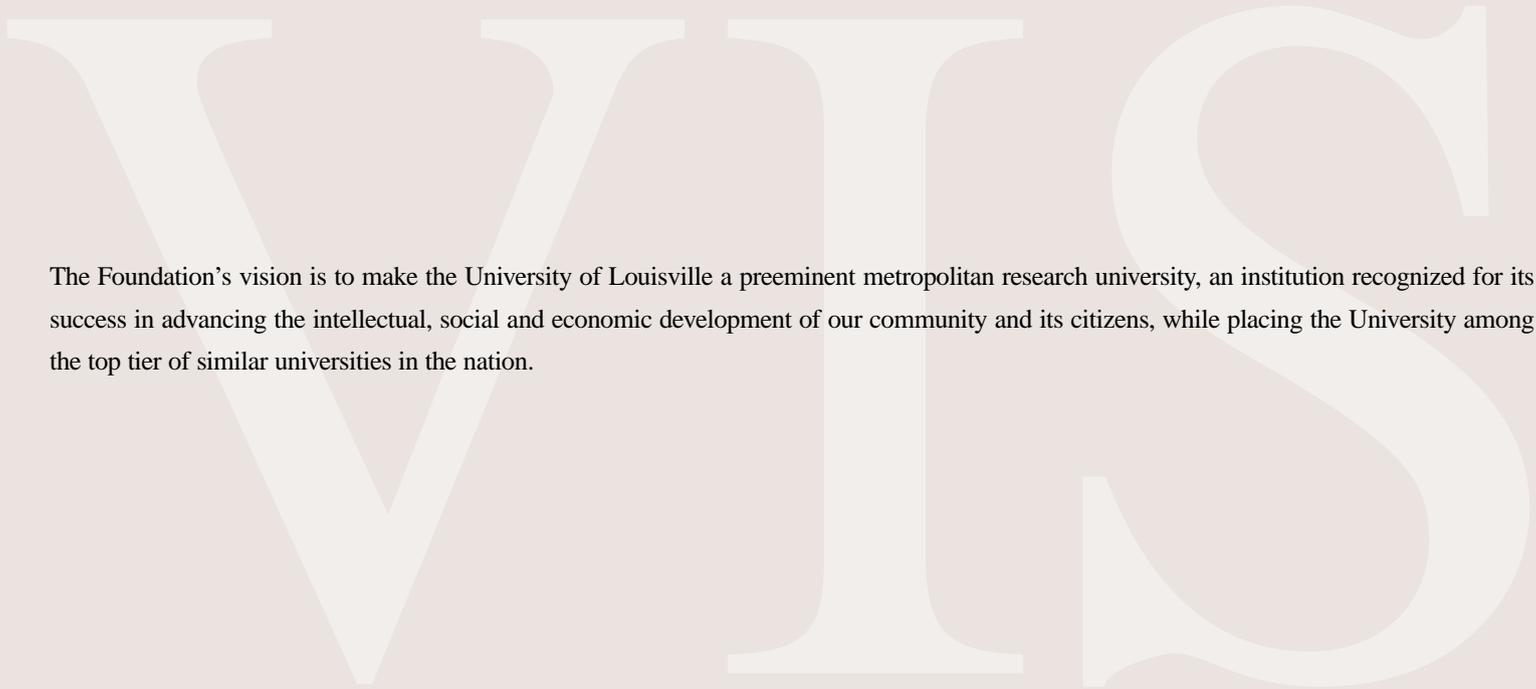
We extend our heartfelt gratitude for your continued generosity and confidence in the University of Louisville and look forward to your support in times to come. You have my sincere assurance that your contributions will be always used according to your intentions and that they will be managed with great care.

Sincerely,

A handwritten signature in black ink that reads "James R. Ramsey".

Dr. James R. Ramsey





The Foundation’s vision is to make the University of Louisville a preeminent metropolitan research university, an institution recognized for its success in advancing the intellectual, social and economic development of our community and its citizens, while placing the University among the top tier of similar universities in the nation.

**O V E R V I E W   O F   T H E   F O U N D A T I O N**

The University of Louisville Foundation was founded in 1970. At that time, the University was a private institution and not a part of the state education system. The Foundation is a 501 (C) (3) non-profit organization that acts for the benefit of the University.

The Foundation is responsible for encouraging philanthropy for the University by securing and administering contributions in support of the University’s education, research and service goals. In short, the Foundation’s role is to support the mission

and vision of the University and act as a repository for funds, while investing and overseeing the funds on behalf of the University of Louisville. These funds are used for scholarships, endowments, research chairs, grants and other academic initiatives as designated by the donors. Gifts to the University, whether restricted or unrestricted, are received, managed and invested under the aegis of the Foundation. The donor and the appropriate University departments decide upon the use of foundation gifts. When the donor makes no specific restriction, funds are spent at

the discretion of the Foundation Board upon the recommendation of the President.

Through the generosity of its donors and the stewardship of the Foundation, the University’s endowment is the largest among the public universities in the state of Kentucky and among the top 20 public universities in the nation. U of L ranked 86th in size when measured with all public and private universities in the United States (source: Chronicle of Higher Education).

*The Chronicle of Higher Education*. August 29, 2003. Volume L, Number 1



Dear Friends,

Since its inception in 1970, the University of Louisville Foundation, Inc. (Foundation) has had the University of Louisville as its sole beneficiary. Your donations to the Foundation have provided the resources essential for the margin of excellence that will propel U of L toward a national level of preeminence as a metropolitan research university. For more than 33 years, the Foundation has focused on enriching the academic and scholarly experiences of U of L's students and faculty. Our records of success during the past three decades have generated:

- Excellence in an array of courses that distinguishes them as national and/or international prestigious leading edge programs
- Significant community pride in the University following our celebration of U of L's 200th anniversary
- Substantial new resources from capital campaigns led by Don Swain (Quest for Excellence), John Shumaker (Challenge for Excellence), and Jim Ramsey (campaign for cancer research)

- Competitive scholarships to attract and retain the very best students
- Critical physical plant enhancements, such as the James Graham Brown Cancer Center Building, Cardinal Park, Amelia Place, and other facilities that support the University's ambitious goals
- Skilled stewardship and investment policies that have positioned our endowment among the top schools in the nation, and others.

We hope this annual report will share with you the enthusiasm and excitement we see occurring at the University of Louisville. The institution is stronger than ever thanks to your confidence in the direction charted and your contributions to achieving our goals. This annual report, and those that follow it, will keep you informed about your investment in the University of Louisville and why you want to be a member of our Cardinal Family. Thank you for all that you have done and continue to do for U of L.



Sincerely,



Mr. Malcolm B. Chancey, Jr.

## 2 0 0 4 - 0 5   B O A R D   O F   D I R E C T O R S

Mr. Malcolm B. Chancey, Jr. (Overseer, B '54) Chairman

Mr. Morris Borowitz (Overseer, L '40)

Mr. Robert W. Rounsavall, III (Overseer)

Mr. J. Chester Porter (Trustee, L '66) Vice Chairman

Mr. Nathaniel E. Green (Trustee, A '72)

Mr. Frank Weisberg (Adopted Alumnus)

Mr. H. Scott Davis, Jr. (L '80) Treasurer

Mr. Larry M. Hayes (Overseer)

Mr. William G. Wilcox (S '66)

Mr. Burt J. Deutsch (ULAA, L '71) Secretary

Dr. Joseph E. Kutz (Adopted Alumnus)

Mr. Frank Hower, Jr. (Overseer)

Dr. James R. Ramsey, President

Ms. Sandy Metts Snowden (Trustee)

Ms. Joyce Hagen (Trustee)

The University of Louisville Foundation Inc. is an independent charitable organization founded in 1970 to oversee funds donated to the University of Louisville. It is directed and supervised by a self-appointed Board of Directors who serve three-year terms. The Board is presided over by the chairman. The President of the University is the CEO of the Foundation. Four members of the Board are appointed by the Chair of Trustees while ten members are elected at large by the Foundation Board.

The schools, colleges and libraries of the University rely heavily on the funds generated by the endowments to maintain and build excellence in their programs.

## U O F L F O U N D A T I O N B O A R D



Cambridge Associates LLC, an investment-consulting firm, provides investment and financial consulting, research, advisory and performance monitoring services to several colleges, universities and foundations including the U of L Foundation. It makes recommendations to the U of L Foundation to structure its portfolio and assists the Foundation in evaluating the endowment's performance. The Foundation's portfolio has weathered volatile capital markets exceedingly well over the past decade thanks to a well diversified portfolio that focuses on rebalancing overpriced investments into more attractively valued assets. According to Cambridge Associates, the Foundation's total endowment performance has been a top performer relative to its peer endowments. The

increasing return on investments has helped the Foundation in providing the matching funds for Bucks for Brains while providing additional funding for other student enrichment programs.

*"The Foundation aids many student enrichment programs that wouldn't normally be funded by the University. It is instrumental in augmenting the educational experience of the students by funding endowed chairs, graduate assistants and scholarships. It also plays an important role in the Bucks for Brains program by raising private gifts to match every state dollar dedicated for endowed chairs, professorships and increased research activities."*

– Mike Curtin, Vice President of Finance for U of L, and Assistant Treasurer for the Foundation

*"The Foundation continues to have excellent returns on its investments due to*

*several factors like excellent local money managers, non-U.S. equity managers, and managers of alternate investments who have done an outstanding job in market assessment of its prospects over a long-term period for making profitable investments."*

– Scott Davis, Treasurer of the U of L Foundation

*"The Foundation acts as a repository of the funds, which are invested wisely. The returns are used to support the University's programs. The Foundation's disciplined and diversified investment strategy has helped it in maximizing the return on the endowment, which has been a top performer most of the time relative to other endowments, and provides a higher return to the University on a regular basis, which in turn places it in the top tier among similar universities. This performance is maintained in the bear as well as bull markets."*

– Burt Deutsch, Chairman, Finance Committee of the Foundation and Secretary of the Foundation

## I N V E S T M E N T P E R F O R M A N C E





– Elizabeth Jones, Liberal Studies  
(Political Science, Pan African Studies, Philosophy  
and English) and Critical Legal Studies Scholar

## S U C C E S S S T O R I E S

*“The U of L Foundation is critical to the University’s success. The University relies on the Foundation to invest and grow funds that support ongoing programs and initiatives that improve and enhance the University experience for our students.”*

– Shirley Willihnganz, University Provost

Contributions to the University of Louisville Foundation provide support to almost every aspect of the University. Gifts endow scholarships, chairs and professorships. They support various libraries like the Ekstrom and the Kornhauser and the J B Speed Art Museum acquisitions. They help underwrite athletic programs, research, student activities and international exchange experiences. And they help many other special projects such as the Bucks for Brains program and the

James Graham Brown Cancer Center. Through the support it provides to all of these areas, the Foundation is quite clearly a conduit for the changing academic landscape of the University.

*“With the help of the University of Louisville Foundation, many of the projects mentioned in the Challenge for Excellence, a 10-year blueprint for the future initiated in 1998, are already off to a fine start in terms of attracting funding. We are confident that with the added impetus and focus generated by the Foundation, we will achieve our target.”*

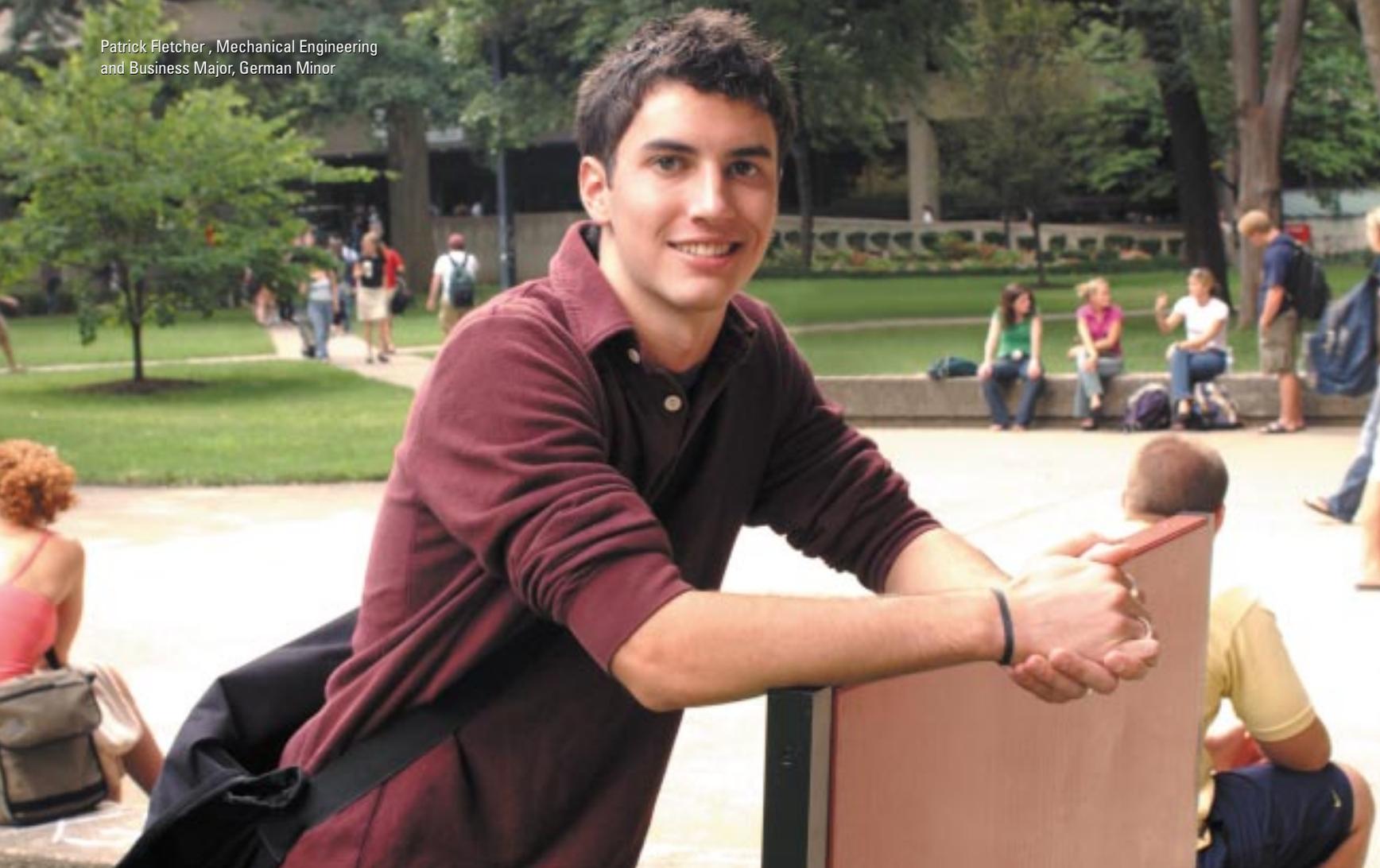
– Dr. James Ramsey, University of Louisville  
President, Inaugural Address, September 9, 2003

In the year 2002-03, gifts and endowments to the University of Louisville Foundation and the capital appreciation have supported U of L programs. Highlighting the year was

the receipt of a new \$15 million gift from the James Graham Brown Foundation to the James Graham Brown Cancer Center that will be dedicated to cancer research and patient care at U of L.

SOME OF THE NOTEWORTHY ENDEAVORS OF THE U OF L FOUNDATION’S INVESTMENTS ARE:

- Provost’s Hallmark Scholars Program
- Overseers Scholars Program
- Cardinal Park
- James Graham Brown Cancer Center
- New Venture Funds



## S U C C E S S S T O R I E S

### PROVOST'S HALLMARK SCHOLARS PROGRAM:

With the support from the University Advancement Office, the Hallmark Scholars Program was launched in 2001 to help halt Kentucky's "brain drain" and improve the state's economy. This program offers highly competitive scholarship packages to the state's brightest high school seniors as an incentive for them to remain in the state and attend U of L, thus helping to attract other highly qualified students.

By offering bright students attractive scholarships to U of L, the program not only helps keep these students in state, but also improves the academic caliber of U of L's student body, one of the University's major strategic initiatives.

For each of the scholarships, the University must raise \$3,200 in private funds to match state dollars. Thanks to the U of L Foundation, the University currently has over 300 Hallmark Scholars on campus. In the year 2002-2003, the Foundation has helped to provide \$530,000 for the Hallmark Scholars Program.

*"The Foundation has supported the Hallmark Scholars Program since its inception and is one of the wonderful endeavors undertaken by the Foundation. It supports the University Advancement Office by raising additional dollars to provide funds for endowments*

*and scholarships. We receive approximately 75% of our gift solicitation budget from the Foundation. This money allows us to acquire new gifts and endowments."*

– Joe Beyel, Vice President for University Advancement and Vice President, U of L Foundation

*"Because of the Hallmark Scholars Program, I don't have to rely on a job or loans. I can really focus on my studies. I'm focused on grades as it is, but it allows them to be even more of a priority. The Provost's Hallmark Scholarship was one of the reasons I chose U of L. A lot of opportunities come from just being in the program."*

– Patrick Fletcher , Mechanical Engineering and Business Major, German Minor



*"The Provost's Hallmark Scholarship has certainly helped me a lot. One of the best things about the Hallmark Scholars Program is the fact that in addition to your education expenses, it also gives you a stipend. So you can focus more on what's really important – your studies."*

– Abigail Heiniger, English Major

## OVERSEERS SCHOLARS PROGRAM

The Overseers Scholars Program identifies, recruits and develops top ranking undergraduate students to win important national fellowship competitions. This program provides an enriched educational experience, along with the sophisticated perspective and the social presence that will help U of L students apply and compete for prestigious national fellowships such as the Truman (public service), the Goldwater (natural sciences and engineering), the Fulbright and the Rhodes (Oxford University). This would not be possible without the help of the funds from the U of L Foundation. As Associate Director for the program, Dr. Patricia Condon helps students coordinate submissions for national and

local scholarships while providing high-achieving students with the critical support services that smooth the way for these applications.

*“The Foundation has provided tremendous support for the Overseers Scholarship Endowment Fund by providing the initial funding until the Overseers raise \$1 million from their own solicitation. It has also paid for opera, ballet, and other arts tickets to enhance the cultural education of our honors students. We have generated Truman and Fulbright scholars from among this pool, and it has been an excellent attraction for outstanding students.”*

– Patricia Condon, Associate Director, Overseers Scholars Program.

*“The Overseers Scholars Program granted me the opportunity to travel overseas. It has also helped me find myself. Filling out the applications is a very introspective process.*

*You have to write many essays, and talk about what you’ve done and where you see your future. The Overseers program also gives you connections and networking opportunities that have allowed me to interact with community leaders and people already in my chosen field.”*

– Elizabeth Jones, Liberal Studies (Political Science, Pan African Studies, Philosophy and English) and Critical Legal Studies Scholar

*“The Overseers Scholars Program has had a great impact on our students’ abilities to go after these national scholarships, while providing students like me with great travel opportunities. And as part of the McConnell Scholars Program, I got an incredible opportunity to interact with political leaders on a regular basis. My interests are politics and medicine, and the Overseers program has given me some great in-depth political opportunities.”*

– Jonathan Ballard, Senior Pre-Med Student

## S U C C E S S S T O R I E S



– Jonathan Ballard, Senior Pre-Med Student

## CARDINAL PARK

Cardinal Park was built to complete the University's need for a comprehensive sports program to comply with Title IX laws and meet a wide variety of recreational interests. Cardinal Park features soccer and softball fields, track and field events, meeting rooms and a fully equipped training room in addition to other important athletic amenities. Since its construction, Cardinal Park has become one of the Commonwealth's largest and most prestigious sports complexes, serving both the University of Louisville and the surrounding community. This multi-phase project, which began with the Bass-Rudd Tennis Center, offers U of L an unprecedented opportunity to attract more qualified



students, establish an extensive new women's sports program and hence establish gender equity and overall expand its distinguished tradition of nurturing athletic talent. It was built with the help of the U of L Foundation, which has put forth the money for completion while donations continue to come in.

*"Cardinal Park is the single most important athletic facility we've built. It has brought us to the cutting edge of women's sports, and*

*has allowed us to work towards our goal of gender equity in athletics. It serves as a 'front porch' for the University and there's no doubt it's an excellent recruitment tool. This state-of-the-art prime asset of the campus was realized thanks to the loan provided by the Foundation."*

– Tom Jurich, Vice President of Athletics

*"Cardinal Park is a wonderful facility. During the recruitment process, it's one of the first things they show you. I was immediately impressed by how well kept it was. It's also nice to have everything all together in one location. And you can see all the other athletes there, too. You pass them in the halls; you get to see your friends. Cardinal Park is definitely one of the reasons that students come here. It's second to none. It's very welcoming for the general public, too."*

– Lindsay Scheer, Field Hockey Forward and Outside Midfielder, Biology Major and Exercise Science Minor

## S U C C E S S S T O R I E S



– Lindsay Scheer, Field Hockey Forward and Outside Midfielder, Biology Major and Exercise Science Minor



– Abigail Heiniger, English Major

## S U C C E S S S T O R I E S

### NEW VENTURE FUNDS

This program is designed to give U of L people the best possible opportunity for success as their entrepreneurial discoveries convert to profitable enterprises. Its purpose is to provide a seamless, simple route for University of Louisville faculty, staff, students and alumni to take their innovations to the marketplace. The

program does this by providing business assistance and, in most cases, investment capital. The Foundation anticipates that its investments in these new ventures will benefit U of L by returning income to its foundation, which will further support the University's mission.

*“One of the ways the Foundation helps the University and its strategic priorities is by*

*supporting the link between academic research and the private sector. The Foundation has earmarked approximately \$3 million for the new ventures program, which will be used for helping faculty, staff, students and alumni take their inventions and research out into the private sector. The Foundation provides investment capital in the early stages of a research-related business, which can make all the difference.”*

– Dr. Nancy Martin, Senior Vice President for Research





– Jason Meier, Biology Major, Chemistry Major

## S U C C E S S S T O R I E S

### THE JAMES GRAHAM BROWN CANCER CENTER

The James Graham Brown Cancer Center is the region's premier facility devoted to the science and technique of cancer therapy. Today the Center houses a diverse collection of researchers, while serving as an education facility for U of L medical students. But perhaps its most important mission is the care it provides to thousands of patients. The U of L Foundation recently approved a \$4 million grant and \$3.5 million low interest loan to renovate the James Graham Brown Cancer Center.

This has greatly helped the Center to further its research and has paved the way for the Center to become a focal point for cancer research and care.

*“The Foundation has given us a grant to renovate three floors of our facility. The state of the art space is necessary for the research we’re doing – research that can translate into the real world. In a sense, our clinic is a laboratory for that research. Promising experiments can go to early trials right here. Our research is evolving into specialized treatments. That means that thanks to the Foundation’s grant, patients with different types of cancer will be able*

*to see experts in their particular type of cancer, while still allowing multi-disciplinary trials to happen in the same place.”*

– Dr. Don Miller, Director,  
The James Graham Brown Cancer Center

*“The Overseers Scholarship has helped me to take my academics to a higher level. It has not only provided me with well-rounded activities such as cultural enrichment programs and regular interaction opportunities with other top students, but it has also encouraged me to pursue my research at the James Graham Brown Cancer Center. I am in a very competitive atmosphere academically and all this has taken me up a notch.”*

– Jason Meier, Biology Major, Chemistry Major



F I S C A L Y E A R

2002

U O F L F O U N D A T I O N

2003

FINANCIAL & INVESTMENT REPORT

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

## FISCAL YEAR 2002-2003 FINANCIAL HIGHLIGHTS

- All gifts, endowments and other donations received are used to support U of L's goals such as:
  - Enhancing the educational experience of University of Louisville students
  - Increasing the number of doctoral degrees awarded
  - Advancing the University's research agenda by increasing the total number and amount of research grants and contracts funding
  - Providing a well-balanced, high-quality education for students
  - Contributing to knowledge and the solution of problems through excellence and distinction in teaching, research, and community services
- The University Advancement Office is well supported by the Foundation. The Advancement Office receives approximately 75% of their gift solicitation budget from the Foundation. This money allows the Advancement Office to acquire new gifts and endowments.
- Total assets under the management of the U of L Foundation reached a high of \$627,622,000 as of June 2003, a 5% increase of \$30,261,000 over the close of the previous fiscal year. The Foundation received \$49,118,000 in outright gifts during fiscal year 2003.
- Disbursements by the Foundation on behalf of the University rose to \$42,057,000. The funds support a myriad of purposes including scholarships, fellowships, academic program development, chairs, professorships, lectureships, faculty development, research, equipment, facilities, and the U of L libraries.

## OTHER FINANCIAL HIGHLIGHTS:

- New scholarship endowments were established during the year through aggregate gifts of \$2,367,987.
- Total scholarship endowments consist of 437 funds, with a total market value of \$94,465,850 as of December 31, 2003.
- Cash gifts, gifts-in-kind, new pledges, and new expected bequests totaled \$37,805,579 during the year.
- The Foundation's annual budget of \$35 million represents 5.6% of total expenditures for the University.
- \$6,344,000 of the total disbursements on behalf of the University were directed toward student scholarship support, which made attendance at U of L a reality for many students — primarily state residents — and eased the financial burden for others.
- \$6.8 million of total disbursements from the Foundation were directed toward faculty salaries, professional development grants and awards, which enabled the University to attract and retain the highest caliber of faculty for teaching, research and public service.
- The market value of the Foundation's endowment was \$475.2 million at the close of the fiscal year 2003.

## INVESTMENT PERFORMANCE HIGHLIGHTS

Due to the wise investment strategy of the Foundation, the University of Louisville's total endowment performance has been in the top performance quartile relative to other endowments 5 out of 6 periods. According to Cambridge Associates LLC, an investment consulting firm, since January 1, 1990, through recent bull and bear markets, the University of Louisville's endowment performance has been in the 8th percentile; in other words, superior to 92% of the 225 endowments in the universe of non-profit endowments, as well as a smaller subset of colleges and universities for which Cambridge Associates tracks investment performance.

This important achievement is due to the Foundation's prudent investment policy that involves mitigating the market risk by 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 investment objective of the Foundation is 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. With this objective in view, the Board of Directors of the Foundation determines the portion of the total return, which may be expended. The approved spending policy establishes that 5.5 percent of the three year moving average of the Combined Endowment Fund market value as of December 31 be made available for spending in the subsequent fiscal year. Effective January 1999, the Foundation Board approved a resolution to include an additional 0.5 percent assessment for development, alumni relations and support services. The major portion of the long-term investments is pooled in the Combined Endowment Fund, which is the general endowment pool for the Foundation. The Foundation has adopted an investment strategy whereby the average annual return over the long term should equal the rate of inflation (measured by the Consumer Price Index) plus the average level of spending from the Combined Endowment Fund.

# INDEPENDENT AUDITORS' REPORT

Deloitte & Touche USA LLP  
220 W. Main Street  
Suite 2100  
Louisville, KY 40202  
Tel: (502) 562-2000  
Fax: (502) 562-2073  
www.deloitte.com

**Deloitte  
& Touche**

Board of Directors  
University of Louisville Foundation  
Louisville, Kentucky

We have audited the accompanying combined statements of financial position of the University of Louisville Foundation, Inc. and affiliate (Foundation) as of June 20, 2003 and 2002, and the related combined statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the University of Louisville Foundation, Inc. and affiliate. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the University of Louisville Foundation, Inc. and affiliate as of June 30, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

November 20, 2003

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

## COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2003 and 2002  
(In Thousands)

<b>Assets</b>	<b>2003</b>	<b>2002</b>
Cash and cash equivalents	\$20,612	\$20,605
Accounts and accrued interest receivable	1,932	3,427
Loan receivable from the University of Louisville Athletic Association, Inc.	6,967	7,467
Prepaid expenses	1,122	681
Contributions receivable, less allowance for doubtful accounts of \$4,093 in 2003 and \$1,739 in 2002	33,137	23,476
Due from University of Louisville and affiliates	-	3,720
Investments	469,678	459,844
Funds held in trust by others	49,554	51,017
Restricted investments	5,219	2,017
Capital assets, net	39,401	25,107
<b>Total assets</b>	<b>\$627,622</b>	<b>\$597,361</b>

### Liabilities and Net Assets

#### Liabilities:

Accounts payable	\$2,662	\$403
Funds held in trust for others	28,701	28,585
Bonds payable	38,115	23,954
Other	12,349	8,387
Due to University of Louisville	5,739	-
<b>Total liabilities</b>	<b>87,566</b>	<b>61,329</b>

#### Net Assets:

Unrestricted		
Unrestricted - designated	231,803	255,599
Unrestricted - undesignated	19,647	21,520
<b>Total unrestricted</b>	<b>251,450</b>	<b>277,119</b>
Temporarily restricted	27,913	22,685
Permanently restricted	260,693	236,228
<b>Total net assets</b>	<b>540,056</b>	<b>536,032</b>
<b>Total liabilities and net assets</b>	<b>\$627,622</b>	<b>\$597,361</b>

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

## COMBINED STATEMENTS OF ACTIVITIES

For The Years Ended June 30, 2003 and 2002

(In Thousands)

	Unrestricted		Temporarily Restricted		Permanently Restricted		Totals	
	2003	2002	2003	2002	2003	2002	2003	2002
<b>Revenues, Gains and Other Support</b>								
Gifts	\$13,329	\$14,973	\$10,474	\$1,252	\$14,815	\$9,109	\$38,618	\$25,334
Research Challenge Trust Fund	-	-	-	-	10,500	6,512	10,500	6,512
Investment income	1,760	1,970	-	-	-	-	1,760	1,970
Endowment income	8,677	10,232	524	65	42	411	9,243	10,708
Net realized and unrealized (loss)/gain on investments	(16,128)	(15,585)	206	(292)	(1,464)	(8,964)	(17,386)	(24,841)
Residence hall income	2,351	2,006	-	-	-	-	2,351	2,006
Other	995	628	-	-	-	-	995	628
Net assets released from restrictions:								
Satisfaction of program restrictions	2,110	2,194	(2,110)	(2,194)	-	-	-	-
Satisfaction of equipment acquisition restrictions	-	6	-	(6)	-	-	-	-
Expiration of time restrictions	2,554	2,676	(2,554)	(2,676)	-	-	-	-
<b>Total revenues, gains and other support</b>	<b>15,648</b>	<b>19,100</b>	<b>6,540</b>	<b>(3,851)</b>	<b>23,893</b>	<b>7,068</b>	<b>46,081</b>	<b>22,317</b>
<b>Expenses</b>								
Contributions to various University departments	65	1,914	-	-	-	-	65	1,914
Payments on behalf of the University of Louisville for:								
Research	7,808	7,675	-	-	-	-	7,808	7,675
Instruction	2,868	2,853	-	-	-	-	2,868	2,853
Public service	757	820	-	-	-	-	757	820
Academic support	10,054	9,967	-	-	-	-	10,054	9,967
Student services	59	36	-	-	-	-	59	36
Institutional support	3,509	5,623	-	-	-	-	3,509	5,623
Operation and maintenance of plant	298	147	-	-	-	-	298	147
Scholarships/fellowships	6,344	7,056	-	-	-	-	6,344	7,056
Payments to annuitants	2,521	1,434	-	-	-	-	2,521	1,434
Interest expense	2,840	1,800	-	-	-	-	2,840	1,800
Residence hall operations (including depreciation)	1,796	1,679	-	-	-	-	1,796	1,679
General and administrative, including fund-raising	3,138	3,415	-	-	-	-	3,138	3,415
<b>Total expenses</b>	<b>42,057</b>	<b>44,419</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,057</b>	<b>44,419</b>
<b>Net change in assets from operations</b>	<b>(26,409)</b>	<b>(25,319)</b>	<b>6,540</b>	<b>(3,851)</b>	<b>23,893</b>	<b>7,068</b>	<b>4,024</b>	<b>(22,102)</b>
<b>Non-Operating Activity</b>								
Transfers	740	-	(1,312)	-	572	-	-	-
<b>Net (decrease)/increase in net assets</b>	<b>(25,669)</b>	<b>(25,319)</b>	<b>5,228</b>	<b>(3,851)</b>	<b>24,465</b>	<b>7,068</b>	<b>4,024</b>	<b>(22,102)</b>
Net assets at beginning of year	277,119	302,438	22,685	26,536	236,228	229,160	536,032	558,134
<b>Net assets at end of year</b>	<b>\$251,450</b>	<b>\$277,119</b>	<b>\$27,913</b>	<b>\$22,685</b>	<b>\$260,693</b>	<b>\$236,228</b>	<b>\$540,056</b>	<b>\$536,032</b>

See notes to combined financial statements.

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

## COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002  
(In Thousands)

<b>Cash Flows from Operating Activities</b>	<b>2003</b>	<b>2002</b>
Change in net assets	\$4,024	\$(22,102)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Realized and unrealized loss on investments	17,386	24,841
Depreciation and amortization expense	1,216	898
Unrealized loss on swap agreements	1,675	765
Contributions restricted for long-term investment	(25,315)	(15,621)
Change in assets and liabilities:		
Decrease in accounts and accrued interest receivable	1,495	476
Increase in prepaid expenses	(50)	(22)
(Increase)/decrease in contributions receivable	(9,661)	1,780
Increase in accounts payable	2,259	215
Increase/(decrease) in other liabilities	2,287	(603)
Increase/(decrease) in due to University of Louisville	9,459	(10,183)
Net cash provided/(used) by operating activities	4,775	(19,556)
<b>Cash Flows From Investing Activities</b>		
Purchases of investments	(228,509)	(84,795)
Sales of investments	197,896	76,817
Purchases of capital assets	(15,502)	(1,465)
Payments received on loan to University of Louisville Athletic Association, Inc.	500	183
Net cash used by investing activities	(45,615)	(9,260)
<b>Cash Flows From Financing Activities</b>		
Proceeds from contributions restricted for investment in endowment	25,315	15,621
Proceeds from issuance of bonds payable	14,268	-
Payment of bond principal	(115)	-
Payments of bond issuance costs	(391)	-
Increase/(decrease) in funds held in trust for others	1,770	(415)
Net cash provided by financing activities	40,847	15,206
Net increase/(decrease) in cash and cash equivalents	7	(13,610)
Cash and cash equivalents at beginning of year	20,605	34,215
Cash and cash equivalents at end of year	\$20,612	\$20,605
Supplemental cash flow data:		
Cash paid for interest	\$1,165	\$1,035
Noncash investing and financing activities:		
Capital assets transferred from the University of Louisville	\$0	\$94

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

Notes to Combined Financial Statements  
As of and For the Years Ended June 30, 2003 and 2002

## 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Organization

The accompanying combined financial statements include the balances and transactions of the University of Louisville Foundation, Inc. and ULH, Inc. (ULH) (collectively "Foundation"). All material intercompany balances and transactions have been eliminated in combination. The University of Louisville Foundation, Inc. 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.

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 the University of Louisville Foundation, Inc. through certain common management and trustees. ULH leases land and issues revenue bonds for student housing purposes and receives and retains/disposes of real estate, and manages and operates the student housing properties it owns.

### b. Cash and cash equivalents

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

The Foundation currently uses a commercial bank as its depository. Deposits with the commercial bank are covered by Federal depository insurance up to insurable limits (\$100,000).

### c. Investments

Investments in marketable 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. Securities not publicly traded are stated at cost, which approximates market. The net realized and unrealized appreciation (depreciation) in market value of investments is reflected in the combined statements of activities.

### d. Capital Assets

Capital assets are stated principally 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.

### e. 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 combined 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.

### f. 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.

### g. Unrestricted Bequests

The Foundation follows the policy of designating all unrestricted bequests of \$25,000 or greater as funds functioning as endowments.

### h. Collections

The Foundation has elected not to capitalize collections which include art, rare books, photographs, letters, journals, manuscripts, and musical instruments. These items represent assets held for public exhibition, education, or research and are not for financial gain. Such items are protected, cared for and preserved.

### i. 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.

### j. 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 such changes could materially affect the amounts reported in the combined statements of financial position.

### k. Reclassifications

Certain reclassifications have been made in the 2002 combined financial statements to conform to the 2003 presentation.

### l. Tax Status

The Foundation has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxes under §501(c)(3) of the Internal Revenue Code.

## 2 LOAN RECEIVABLE FROM THE UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

In January, 1999, the Foundation made an \$8.5 million dollar unsecured, non-interest bearing loan to the University of Louisville Athletic Association, Inc. (Association) for the construction of Cardinal Park, due upon collection of contributions receivable by the Association. The Association's intent is to repay the \$8.5 million loan with future contributions and gifts, which are currently being solicited from public and private sources as part of a campaign drive to provide funding for the Cardinal Park project. During the year ended June 30, 2003, the Association repaid \$500,000, leaving an outstanding loan balance of approximately \$7.0 million as of June 30, 2003.

## 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable are discounted, using rates on risk-free obligations ranging from .98% to 2.45% (2003) and 1.9% to 4.81% (2002), to the present value of future cash flows. Contributions receivable as of June 30, 2003 and 2002, are as follows (in thousands):

	2003	2002
Less than one year	\$6,818	\$2,942
One to five years	11,995	5,287
Greater than five years	18,417	16,986
Allowance for doubtful accounts	(4,093)	(1,739)
Net contributions receivable	\$33,137	\$23,476

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

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 combined financial statements. As of June 30, 2003, the approximate fair market value of these conditional gifts is as follows (in thousands):

Bequests	\$50,247
Other	6,765
<b>Total</b>	<b>\$57,012</b>

## 4 INVESTMENTS AND INVESTMENT INCOME

Investments as of June 30, 2003 and 2002, are as follows (in thousands):

	2003	2002
Preferred and common stock	\$216,606	\$192,611
Corporate bonds	86,970	106,675
Mutual funds	96,450	107,063
Real estate	15,797	18,792
Investment in partnerships	32,732	16,510
U.S. government securities	19,089	16,095
Land and buildings	2,034	2,098
<b>Total investments</b>	<b>\$469,678</b>	<b>\$459,844</b>

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. The Combined Endowment Fund is the general endowment pool for the Foundation. 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 Consumer Price Index) plus the average level of spending (as defined below) from the Combined Endowment Fund. The average annual return (loss) for the Combined Endowment Fund was .71 and (1.57) percent in 2003 and 2002, respectively.

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. In connection with these objectives, the Board of Directors determines the portion of total return which may be expended. The approved spending policy establishes that 5.5 percent of the three-year moving average of the Combined Endowment Fund market value as of December 31 be made available for spending in the subsequent fiscal year. Effective January 1999, the Board of Directors approved a resolution to include an additional 0.5 percent assessment for development, alumni relations, and support services.

The amount available for spending under the policy amounted to approximately \$19.3 million and \$16.9 million for the years ended June 30, 2003 and 2002, respectively, of which approximately \$17.8 million and \$15.9 million was actually expended for the years ended June 30, 2003 and 2002, respectively.

At June 30, 2003, the historic dollar value of certain endowment funds exceeded market value by an aggregate of approximately \$5.0 million.

The Foundation maintains the Grawemeyer Fund separate from the Combined Endowment Fund. The Grawemeyer awards are monetary awards for distinguished achievements in the areas of music, religion, education, psychology and world order. These awards, which are paid from accumulated earnings, amount in total to \$200,000 each, payable over five years.

At June 30, 2003, the Foundation had the following commitments under contracts with private equity investment managers to fund capital calls. These capital calls will occur over the term of the respective agreements, which is generally a four-year period (in thousands):

	Total Commitment	Contributed To Date	Remaining Commitment
Endowment Venture Partners III, LP	\$7,715	\$7,484	\$231
Endowment Venture Partners IV, LP	10,000	7,900	2,100
Endowment Venture Partners V, LP	4,400	1,747	2,653
Endowment Private Equity Partners IV, LP	5,000	1,900	3,100
Capital Venture Partners VI, LP	2,400	82	2,318
Capital Private Equity Partners V, LP	3,000	105	2,895
Chrysalis Ventures II, LP	2,500	600	1,900
Minerva Ventures	3,000	644	2,356
Lone Star	10,000	2,865	7,135
	<b>\$48,015</b>	<b>\$23,327</b>	<b>\$24,688</b>

## 5 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 \$17.5 million and \$18.5 million as of June 30, 2003 and 2002, respectively. The Foundation's portion of the market value of the remaining trusts was approximately \$32.0 million and \$32.5 million as of June 30, 2003 and 2002, respectively. For the years ended June 30, 2003 and 2002, the Foundation received income of \$1.3 million and \$1.7 million, respectively, from these trusts. These receipts are included in endowment income.

## 6 RESTRICTED INVESTMENTS

Restricted investments consists of U.S. Government Securities of approximately \$5.2 million and \$2.0 million at June 30, 2003 and 2002, respectively. These investments are restricted by bond indenture for payment of debt service, and repairs and replacement.

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

## 7 CAPITAL ASSETS, NET

Capital assets, as of June 30, 2003 and 2002, are as follows (in thousands):

Residence Halls:	2003	2002
Building	\$19,804	\$19,804
Construction in process	13,800	-
Furniture and fixtures	1,468	1,269
Accumulated depreciation	(1,356)	(677)
Net	33,716	20,396
<b>Other:</b>		
Land	653	653
Buildings	4,114	4,114
Other plant assets	3,113	1,610
Accumulated depreciation	(2,195)	(1,666)
Net	5,685	4,711
Total - Net	\$39,401	\$25,107

Pursuant to a ground lease agreement, ULH agrees to pay the University annual rental equal to available cash flow from the residence hall project, as defined in the agreement. No rent was due under the terms of the agreement for the years ended June 30, 2003 and 2002.

## 8 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, 2003 and 2002, the Foundation held approximately \$28.7 million and \$28.6 million, respectively, for the Association's investment purposes.

## 9 BONDS PAYABLE

Bonds payable consists of the following at June 30, 2003 and 2002 (in thousands):

	Interest Rate	Year of Maturity	2003	2002
Series 2001A	Variable to maximum of 12% (1.01% and 1.28% as of June 30, 2003 and 2002, respectively)	2029	\$24,080	\$24,080
Series 2001B	Variable to maximum of 12% (4.75% as of June 30, 2002)	2002	-	115
Series 2002A	Variable to maximum of 12% (1.01% as of June 30, 2003)	2032	14,135	-
Series 2002B	Variable to maximum of 12% (2.75% as of June 30, 2003)	2007	325	-
Total bonds payable			38,540	24,195
Less unamortized discount			(425)	(241)
Bonds payable, net of discount			\$38,115	\$23,954

The bonds are secured by a letter of credit and the guaranty of the Foundation. Amounts payable under the guaranty are limited to \$30.0 million in total, and the lesser of (1) \$1.5 million or (2) annual debt service, annually.

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

For the Year Ended June 30,	Principal Due
2004	\$150
2005	265
2006	350
2007	455
2008	560
Thereafter	36,760
Total	\$38,540

In July 2002, ULH entered into a swap agreement with a certain financial institution whereby ULH agreed to pay a fixed interest rate (3.60%) on a notional amount of \$14,135,000 in exchange for receiving payments based on a floating interest rate tied to the Municipal Bond Association Index. The floating rate is reset on a weekly basis. The market value of this agreement was approximately (\$816,000) at June 30, 2003 and is included in other liabilities on the combined statements of financial position. This agreement terminates on July 2, 2007.

In August 2001, ULH entered into swap agreements with certain financial institutions whereby ULH agreed to pay a fixed interest rate (3.88%) on a notional amount of \$24,080,000 in exchange for receiving payments based on a floating interest rate tied to the Municipal Bond Association Index. The floating rate is reset on a weekly basis. The market values of these agreements were approximately (\$1,624,000) and (\$765,000) at June 30, 2003 and 2002, respectively, and are included in other liabilities on the combined statements of financial position. These agreements terminate on September 1, 2006.

The net loss on settlement of the fixed and floating interest rates was approximately \$227,000 and \$96,000 for the years ended June 30, 2003 and 2002, respectively, which is included in interest expense in the combined statements of activities.

## 10 OTHER LIABILITIES

Other liabilities, as of June 30, 2003 and 2002, are as follows (in thousands):

	2003	2002
Payments to unitrusts and annuitants	\$7,535	\$5,609
Grawemeyer awards	1,862	1,624
Bond interest swap agreements	2,440	765
Deferred compensation	245	277
Miscellaneous	267	112
Total	\$12,349	\$8,387

## 11 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 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 Foundation is custodian of funds owned by the University and distributed from the state under HB 1 which established the RCTF.

# UNIVERSITY OF LOUISVILLE FOUNDATION, INC. AND AFFILIATE

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002, AND INDEPENDENT AUDITORS' REPORT

The Foundation serves in an agency capacity and invests funds on behalf of the University based on a formal agreement covering the administration of all funds received, which are managed according to RCTF restrictions.

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. At June 30, 2003, the University had received all of the \$66 million allocated for the University by the State.

## 15

### NET ASSETS

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

	Temporarily Restricted	Permanently Restricted	Total
Instruction	\$5,657	\$85,668	\$91,325
Research	-	39,707	39,707
Public service	-	2,137	2,137
Academic support	90	57,758	57,848
Student services	-	166	166
Institutional support	22,166	2,973	25,139
Scholarships/fellowships	-	68,118	68,118
Auxiliary operations & other	-	4,166	4,166
<b>Total</b>	<b>\$27,913</b>	<b>\$260,693</b>	<b>\$288,606</b>

## 12

### NET ASSETS RELEASED FROM RESTRICTIONS

Donor imposed restrictions expired on temporarily restricted net assets during the years ended June 30, 2003 and 2002, as follows (in thousands):

Temporarily restricted contributions for:	2003	2002
Research	\$813	\$782
Instruction	-	8
Academic support	324	12
Scholarships/fellowships	972	776
Payments to annuitants	2,521	1,434
Expiration of time restrictions	34	1,864
<b>Total net assets released from restrictions</b>	<b>\$4,664</b>	<b>\$4,876</b>

## 16

### LOUISVILLE MEDICAL CENTER DEVELOPMENT CORPORATION

The Board authorized the Foundation to assist the Louisville Medical Center Development Corporation (LMCDC) in its efforts to establish a biomedical research park in the vicinity of the University Health Sciences Center campus. The Foundation authorized its President to execute a bank letter of credit guarantee of up to \$1,666,667 towards one-third of the purchase of the LMCDC research park property. Jewish Hospital HealthCare Services and Norton Healthcare have authorized similar letters of credit as security for the remaining two-thirds of the cost of the property.

LMCDC is a not-for-profit corporation formed in 1999 by the City of Louisville, Jewish Hospital HealthCare Services, Norton Healthcare and the University to promote economic growth in the biomedical sector. LMCDC's mission to foster research entails the purchase of real property for lease to businesses related to medicine.

In addition to the Foundation's security interest in one-third of the unencumbered value of the property, the Foundation has the option to purchase a one-third interest in the property prior to any claim being made under the letter of credit for an amount not to exceed the Foundation's guarantee. In the event of purchase, the Foundation would not expect to incur any additional costs other than disposal of the property. The University, as a member organization of LMCDC, is committed to pay its share of the annual interest expense on the debt associated with a letter of credit from its operating funds or its share of revenue from the activities of LMCDC.

## 13

### EXPENSES

Expenses by natural classification for the years ended June 30, 2003 and 2002 were approximately (in thousands):

	2003	2002
Personal service costs	\$17,770	\$19,896
Services	17,532	16,873
Equipment donated to the University	1,193	1,500
Supplies	1,768	1,914
Payments to annuitants	2,521	1,434
Depreciation	1,208	888
Contributions to various University departments	65	1,914
	<b>\$42,057</b>	<b>\$44,419</b>

## 17

### COMMITMENTS

At June 30, 2003, the Foundation had approximately \$504,000 in encumbrances outstanding for future expenditures.

## 14

### FUND RAISING EXPENSES

Fund raising expenses were approximately \$3.1 million and \$3.0 million for the years ended June 30, 2003 and 2002, respectively.



20

BUILDING A STRONG FOUNDATION FOR THE FUTURE.

03



G R A W E M E Y E R   H A L L   L O U I S V I L L E ,   K Y   4 0 2 9 2