Procedures & Findings Report

June 8, 2017

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Introduction

The University of Louisville ("UofL") issued a Request for Proposal ("RFP") dated September 26, 2016 for a "Special Forensic Audit" of UofL relating to the activities and accounts of the University of Louisville Foundation, Inc. ("ULF") and its subsidiaries and affiliates. Alvarez & Marsal Disputes and Investigations, LLC ("A&M") and nine other professional services firms responded to the RFP. UofL awarded the contract to A&M.

UofL and A&M entered into a personal services contract on November 29, 2016 to conduct a Special Forensic Investigation of the activities and accounts of ULF and its subsidiaries and affiliates from July 1, 2010 to June 30, 2016 (the "Engagement"). After gaining an understanding of the complexity of the ULF structure, the magnitude of the cash inflows and outflows, and the state of the books and records, A&M worked with UofL to refine the scope of the Engagement. UofL accepted A&M's recommendation to investigate ULF's financial transactions for the fiscal years ended June 30, 2014 through June 30, 2016[1] (the "Review Period") in detail and review select types of transactions over a longer time period.

This report ("Report") describes A&M's procedures and findings, ULF's policy and procedural changes responsive to A&M's findings, and A&M's recommendations in connection with the Engagement. A&M's procedures, findings, and recommendations are based on an investigation of the books and records of ULF and UofL. A&M relied upon certain representations and information provided by ULF and UofL. A&M did not perform an audit, examination, or review in accordance with generally accepted auditing standards or with other standards established by the American Institute of Certified Public Accountants ("AICPA"), the U.S. Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board ("PCAOB"), or other state, national, or international professional or regulatory bodies.

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[1] ULF's fiscal year ("FY") is July 1 through June 30.

Introduction

Limitations of Report

The Information has been prepared and compiled to assist UofL in evaluating issues related to ULF and the Special Forensic Investigation and does not purport to contain all necessary information that may be required to evaluate any entity or transaction, regardless of how pertinent or material such information may be. While the textual Information is believed to be accurate, in preparation of the Report, A&M has not independently verified any of the underlying source data which provided a basis for the Information. Accordingly, A&M makes no representation or warranty as to the accuracy, reliability or completeness of the Information and A&M is not responsible to any party, in any way, for any analysis contained in this report.

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Background

UofL created and designated ULF, an independent, 501(c)(3) not for profit corporation, to receive, invest, and distribute gifted and endowed funds donated to UofL. ULF's operations include the activities of 13 wholly owned subsidiaries and several joint venture partnerships. In fiscal year 2016, ULF transferred its ownership interests in certain subsidiaries and capital assets to ULREF, a separate real estate foundation created to hold and manage real property assets.

A 15-member board of directors oversees ULF. The ULF President and other ULF Officers manage ULF's day-to-day operations. All of the ULF Officers also held UofL titles. Historically, UofL employees typically performed the ULF financial and administrative tasks, with certain employees having responsibilities for both ULF and UofL.

ULF and ULREF (and their subsidiaries) recorded financial transactions in various accounting and financial reporting systems during the Review Period, with third-party firms recording financial transactions for certain subsidiaries. ULF incorporates the activities of the ULF Subsidiaries in its consolidated financial statements. Historically, ULF mainly used one bank account to fund its operations, commingling gift, endowment, and other cash receipts. Although the ULF Subsidiaries generally maintained separate bank accounts, ULF also funded subsidiary operations directly from its operating account.

Prior to A&M's Engagement, former ULF President, Dr. James Ramsey, resigned and ULF placed Kathleen Smith, Chief of Staff for the President and Assistant Secretary, on administrative leave. In December 2016, Keith Sherman became the ULF Interim Executive Director and Chief Operating Officer to manage ULF's and ULREF's operations. Mr. Sherman worked with the Foundation Financial Affairs Office to review and modify ULF's policies and procedures (a process the Foundation Financial Affairs Office started prior to Mr. Sherman's arrival). ULF has implemented a number of policy and procedural changes that address the issues discussed throughout this report, identified as "ULF Policy and Procedural Changes."

During the course of the Engagement, A&M performed a number of general procedures to obtain an understanding of ULF's organizational and operational structure. Based on its initial findings, A&M performed further review and analysis on select transactions or types of transactions, focusing on ULF's sources and uses of cash.

General Procedures and Findings

Preserved Data – A&M (in conjunction with UofL's IT Enterprise Security) imaged eight UofL and ULF servers and 115 hard drives and mobile devices, and preserved emails for 48 Custodians.

Reviewed Documents – A&M loaded documents and emails for select Custodians into a searchable database and reviewed thousands of emails using targeted keyword searches. A&M also searched and reviewed hundreds of documents from UofL and ULF servers.

Reviewed ULF Board of Directors Meeting Minutes – A&M obtained and reviewed all available meeting minutes, including those ULF did not maintain on its website.

Conducted Interviews – A&M conducted more than 100 interviews of current and former UofL/ULF employees and ULF Board of Director members, as well as third-party financial and legal services providers.[2]

Aggregated and Analyzed Data – A&M aggregated and analyzed a significant amount of transactional data, including a review of all cash transactions over $100 thousand during the Review Period.

A&M's general findings with respect to these procedures are as follows:

1. UofL's and ULF's substandard information technology policies and procedures resulted in lost data for certain Custodians.

2. The ULF Board of Directors lacked knowledge and oversight of certain significant transactions.

3. ULF Officers did not provide the ULF Board of Directors with sufficient information to allow them to make informed decisions.

4. ULF commingled its cash resulting in an inability to identify the source of funds for a specific disbursement.

[2] Dr. James Ramsey, former UofL President, declined an in-person interview with A&M. Additionally, eight of 18 former members of the ULF Board of Directors declined an interview with A&M.

Specific Findings

As A&M investigated ULF's cash transactions, it identified numerous issues related to ULF's use of cash, specifically ULF's depletion of Endowment assets. The following table summarizes the types of transactions where A&M identified significant issues.

Diagram 1

Transaction Types:
Unrecorded Endowment Losses
1(a) UHI Line of Credit
1(b) JGBCC Grant
Recorded Endowment Losses
2 Startup Company Investments
Excessive Spending
3(a) Spending Rate and Spending Policy Calculation
3(b) Endowment Gift Principal Spent
3(c) Liquidation of Additional Endowment Pool Assets
Unbudgeted or Over-Budget Spending
4(a) Compensation
4(b) Deferred Compensation
4(c) Real Estate
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4(e) Other Notable Spending
Underwater Endowments
5 Understated Underwater Endowments

Issues Identified:
ULF Depleted Endowment Assets
ULF Officers Exceeded Authority
ULF Failed to Properly Account for Transactions
ULF Presented Insufficient and/or Misleading Information
ULF Failed to Correct Known Issues
ULF Board of Directors Failed to Oversee ULF
Other Misellaneous Issues

1(a) Unrecorded Endowment Losses: UHI Line of Credit

In April 2008 (and reaffirmed in November 2011), the ULF Board of Directors Executive Committee authorized ULF to loan $35 million of Endowment funds to UHI which in turn loaned the money to other ULF Subsidiaries. ULF recorded the intercompany loan (principal plus accrued interest) as an Endowment Pool asset. In fiscal year 2016, ULREF assumed $28.9 million of the UHI Line of Credit liability in conjunction with ULF's contribution of membership interests in certain ULF Subsidiaries to ULREF.

ULF ultimately loaned ULF Subsidiaries (through UHI) $52.2 million. The ULF Subsidiaries used the UHI Line of Credit proceeds to fund operating expenses (including interest payments for third-party loans), invest in joint ventures, and develop land (roads, lighting, etc.) for future building developments. Despite the fact that the ULF Subsidiaries currently (i) do not generate revenue, (ii) have debt in excess of real property values, and/or (iii) generate minimal cash flows (which to date ULF generally has not used to repay the UHI Line of Credit), ULF continues to record the market value of the UHI Line of Credit at $60.6 million (principal plus accrued interest) in the Endowment Pool.

Summary of Findings:

1. UHI loaned ULF Subsidiaries $52.2 million of Endowment funds the ULF Subsidiaries will likely not be able to repay.
2. The $52.2 million UHI loaned ULF Subsidiaries was $17.2 million more than the $35 million authorized by the ULF Board of Directors.
3. ULF did not record the UHI Line of Credit at fair value. Thus, ULF potentially overstated the Endowment Pool market value by $60.6 million.
4. ULF Officers did not provide the ULF Board of Directors sufficient information for the ULF Board of Directors to be fully informed about the UHI Line of Credit.
5. The ULF Board of Directors failed to properly oversee the UHI Line of Credit.

ULF Policy and Procedural Changes:

ULF plans to assess the collectability of the UHI Line of Credit, identifying the source of funds and timing in which it expects the ULF Subsidiaries (and now ULREF) could potentially repay the UHI Line of Credit. ULF informed A&M it would record valuation allowances for the UHI Line of Credit loan balances based on its assessment, appropriately reducing the reported UHI Line of Credit Endowment Pool asset value to reflect the fair value of the asset.

1(b) Unrecorded Endowment Losses: JGBCC Grant

ULF issued an intercompany loan to UHI, which UHI in turn granted to ULRF to fund $10 million of JGBCC research activities. ULF liquidated Endowment Pool assets to fund the JGBCC Grant, recording the principal plus accrued interest of the intercompany loan (between ULF and UHI) as an Endowment Pool asset. The JGBCC Grant included a repayment clause requiring ULRF to repay the funds if ULRF received a distribution from its 30% ownership in the Startup Company ACT.

ULRF's repayment of the grant was both contingent and remote, such that ULRF did not record a liability and UHI did not record a receivable (as advised by its auditors). However, ULF continued to report the $11.2 million intercompany loan balance (principal plus accrued interest) as an Endowment Pool asset. Further, despite the fact that ULF substantially wrote down its own direct investment in ACT based on the Startup Company's financial performance, ULF continued to record the intercompany loan at full value.

Summary of Findings:

1. ULF (through UHI) loaned ULRF $10 million of Endowment funds ULRF will not repay.
2. ULF transferred $10 million of Endowment funds for the JGBCC Grant without approval from the ULF Board of Directors.
3. The JGBCC Grant does not represent an asset. Thus, ULF overstated the Endowment Pool market value by $11.2 million.

ULF Policy and Procedural Changes:
Based on discussions with A&M, ULF agreed the JGBCC Grant does not represent an asset, and going forward ULF will not include the outstanding principal and interest in the Endowment Pool market value.

2 Recorded Endowment Losses: Startup Company Investments

In addition to the UHI Line of Credit, the ULF Board of Directors Executive Committee authorized ULF to invest $10 million of Endowment funds in "new ventures." Ultimately, ULF invested $9.9 million in high-risk Startup Companies which are currently valued around $1.7 million. In addition to ULF's investment, ULF and UofL entered into business relationships with the Startup Companies, including but not limited to, the Startup Companies renting office space from ULF Subsidiaries, contracting research from ULRF, and donating funds to UofL.

Summary of Findings:

1. ULF invested $9.9 million of Endowment Pool funds in high-risk Startup Companies currently valued at less than $2 million.
2. ULF effectively exceeded the $10 million ULF Board of Directors' authorized limit by guaranteeing loans and providing other benefits, likely costing ULF more than $3.2 million in additional losses.
3. It appears ULF did not report the market value of the Startup Company investments to the ULF Board of Directors until fiscal year 2015.
4. ULF Board of Directors, Entrepreneurial Group, and UofL Board of Trustee members' investments in the Startup Companies were not transparent.

5. Documents and interviewees indicate ULF required at least one Startup Company rent office space from a ULF Subsidiary in exchange for ULF's $3.2 million investment in the Startup Company.
6. It appears certain Startup Companies funded research through donations rather than Research Sponsorship Agreements to avoid paying UofL overhead charges.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

ULF manages the Endowment funds allocated for spending with its Spending Policy, whereby ULF allocates 7.48% of the three-year historical average market value of the Endowment Pool (subject to certain adjustments and modifications) for spending each year. In certain years, Endowment Programs do not spend all of their Spending Policy Allocation, resulting in Spending Policy Allocation Carryover. The ULF Board of Directors approves the Spending Policy based on a recommendation from the Finance Committee.

Despite ULF's advisors' (and certain ULF Officers') concern that ULF's 7.48% spending rate was too high, ULF did not change its Spending Policy. The methodology ULF used to calculate its Spending Policy Allocation (which was at times in contradiction to direction from the ULF Board of Directors), resulted in an effective spend rate ranging from 8.21% to 9.26% during the Review Period.

Summary of Findings:

1. ULF's overstated Endowment Pool market value resulted in ULF spending in excess of 7.48% of the actual Endowment Pool market value.
2. Despite Cambridge's advice and the ULF Board of Directors Finance Committee directive, ULF failed to exclude the Spending Policy Allocation Carryover from its Spending Policy calculation.
3. ULF's Spending Policy disclosures were inaccurate and misleading.
4. ULF Officers and certain ULF Board of Directors members were aware the 7.48% Spending Policy would negatively impact the Endowment Pool and failed to make any substantive changes.

ULF Policy and Procedural Changes:

ULF modified its fiscal year 2018 Spending Policy, reducing its spending rate from 7.48% to 5.51% of the actual Endowment Pool market value, correcting the calculation methodology issues discussed in this report.

3(b) Excessive Spending:
Endowment Gift Principal Spent

In December 2004, the ULF Board of Directors authorized the ULF President to spend $5 million over five years of an undesignated Quasi Endowment (earnings and interest) referred to as the Evergreen Fund to carry out "specific projects." The Evergreen Fund's market value just prior to the ULF Board of Directors' authorization was $17.6 million. In 2007, the ULF Board of Directors modified its authorization, removing the time restriction and seemingly the amount restriction.

ULF spent the entirety of the $17.6 million Evergreen Fund before March 31, 2014. Moreover, a number of expenditures funded such as executive compensation and bowl game trips do not appear to be in accordance with the "special projects" for which the ULF Board of Directors authorized the funds.

Summary of Findings:

1. ULF expended the Evergreen Fund (more than $17.6 million in Endowment Gift Principal and earnings) by March 2014.
2. Certain Evergreen Fund expenditures do not appear to be in accordance with the ULF Board of Directors' authorization.
3. It does not appear the ULF Board of Directors monitored ULF's Evergreen Fund expenditures.

3(c) Excessive Spending:
Liquidation of Additional Endowment Pool Assets

The ULF Board of Directors approved the majority of ULF's expenditures each year through the ULF Budget, which mainly consisted of expenditures related to the Spending Policy Allocation. Occasionally, the ULF Board of Directors would approve expenditures outside of the ULF Budget, such as real estate acquisitions.

The ULF Budget did not represent a complete operating budget, with significant, known expenditures excluded, such as ULF compensation and Cambridge advisory fees. Moreover, a number of expenditures exceeded budget, including spending managed by the Office of the President. Further, ULF also purchased a significant amount of unbudgeted real property. The ULF Board of Directors at times approved the real property acquisitions without any identification of the source of funds used. ULF's unbudgeted and over-budget expenditures contributed to ULF liquidating $42 million of

Endowment Pool assets in excess of the Spending Policy Allocation during the Review Period. ULF's effective spending rate was as high as 15.14% during the Review Period (accounting for the additional Endowment Pool assets liquidated for spending and the historically overstated Endowment Pool market value).

Summary of Findings:

1. ULF liquidated $42 million of Endowment Pool assets to fund unbudgeted and over-budget spending.
2. ULF did not include significant expenditures in the ULF Budget provided to the ULF Board of Directors.
3. ULF Officers identified the liquidation of Endowment Pool assets in excess of the Spending Policy Allocation as an issue but failed to make any substantive changes.
4. ULF Officers failed to inform the ULF Board of Directors of the Endowment Pool assets liquidated for spending in excess of the Spending Policy Allocation.
5. The ULF Board of Directors did not monitor ULF spending to ensure it was in accordance with the ULF Budget.

ULF Policy and Procedural Changes:

ULF made several cash management changes to limit excessive spending, including separating Endowment, Current Use Gift, and operating funds as well as not funding UofL Spending Policy Allocation overages. For fiscal year 2018, ULF prepared a complete operating budget inclusive of all known or estimable expenditures.

4(a) Unbudgeted or Over-Budget Spending: Compensation

Historically, UofL administered UofL and ULF payroll, issuing one paycheck for employees who performed tasks for both UofL and ULF. Additionally, certain UofL/ULF employees were compensated by UHI in addition to their UofL/ULF salaries.

ULF did not include ULF compensation and/or ULF Subsidiary compensation in the ULF Budget in all periods, contributing to ULF's liquidation of Endowment Pool assets in excess of the Spending Policy Allocation. Additionally, from calendar years 2010 through 2016, UHI paid $1.7 million to employees (generally funded by the UHI Line of Credit), the majority of whom also received UofL/ULF salaries. ULF Officers attempted to conceal compensation paid by UHI from open records requests.

Summary of Findings:

1. ULF used Endowment Pool funds (the UHI Line of Credit) to pay select ULF and UofL employees $1.7 million in additional compensation paid through UHI.
2. ULF paid compensation in excess of budgeted amounts approved by the ULF Board of Directors.
3. The additional compensation paid through UHI was not transparent.

ULF Policy and Procedural Changes:
ULF no longer separately compensates employees from UHI and included all known compensation expenditures in the fiscal year 2018 ULF Budget. ULF instituted new policies to ensure its open records requests are complete and accurate.

4(b) Unbudgeted or Over-Budget Spending: Deferred Compensation

Certain ULF, UofL, and ULAA employees received deferred compensation agreements funded by ULF whereby the employees received compensation in addition to their salaries in the form of contributions, accrued earnings, and tax gross-ups.

ULF did not include deferred compensation in the ULF Budget (at the direction of the Office of the President), contributing to ULF's liquidation of Endowment Pool assets in excess of the Spending Policy Allocation, as well as the diversion of funds intended for other commitments ULF is now unable to satisfy. From 2005 through 2016 the deferred compensation Plan cost ULF $21.8 million, consisting of $8.4 million of vested contributions, $4.1 million of accrued earnings, and $9.2 million of tax gross-ups. It does not appear the ULF Board of Directors monitored, reviewed, or in some instances even approved these expenditures. Moreover, ULF Officers worked to conceal the deferred compensation from open records requests.

Summary of Findings:

1. ULF administered a deferred compensation Plan costing ULF more than $21.8 million, including contributions and earnings of $12.5 million paid to nine employees.
2. It appears ULF paid deferred compensation not approved by the ULF Board of Directors.
3. ULF's deferred compensation was not transparent.

4. The ULF Board of Directors failed to oversee the deferred compensation Plan.
5. ULF failed to maintain appropriate deferred compensation Plan records.

ULF Policy and Procedural Changes:
The ULF Board of Directors terminated the deferred compensation Plan on March 31, 2017. ULF instituted new policies to ensure its open records requests are complete and accurate.

4(c) Unbudgeted or Over-Budget Spending: Real Estate

ULF holds a number of real property assets it acquired through various means and for different purposes, some of which do not generate revenue and/or are not currently used. ULF's real estate acquisition process lacked formal policies and procedures, including in certain instances no formal purchase approval or identification of funding. As a result, ULF purchased properties at prices above the appraised values (interviewees identifying them as "strategic" or "defensive" purchases).

Summary of Findings:

1. ULF acquired eight properties at an aggregate $10.3 million above appraised value.
2. ULF paid $30.1 million for non-revenue generating properties.
3. ULF entered into below market tenant and ground leases for developed properties.
4. It appears ULF Officers failed to provide the ULF Board of Directors sufficient information related to the real property acquisitions.

ULF Policy and Procedural Changes:
ULF and ULREF are in the process of assessing each property and determining the highest and best use for each property. ULF and ULREF are also considering possible disposition of some properties.

4(d) Unbudgeted or Over-Budget Spending: ULAA Transactions

ULAA and ULF engaged in various transactions whereby ULF purchased properties or funded other expenditures on behalf of ULAA and in return ULAA (i) waived required donations for football and men's basketball tickets and (ii) transferred cash to UofL. In addition to these expenditures, ULF funded the Office of the President's purchase of $800 thousand for season tickets each fiscal year. Like ULF's other unbudgeted expenditures, these property and ticket purchases contributed to ULF's liquidation of Endowment Pool assets in excess of the Spending Policy Allocation. Further, ULF also liquidated Endowment assets to fund an intercompany loan to CCG to purchase a golf course. Finally, ULF Officers worked to conceal the details of its arrangements with ULAA.

Summary of Findings:

1. ULF expended monies on behalf of ULAA and in return ULAA transferred cash to UofL and waived required donations on season tickets purchased by the Office of the President.
2. ULF spent $15.1 million on ULAA's behalf for which it only received $11.6 million in consideration.
3. ULF funded $4.9 million in compensation paid to certain ULAA employees.
4. In addition to $9.6 million of Ticket Donations ULF satisfied by expending funds on behalf of ULAA, ULF paid ULAA more than $800 thousand annually for football and men's basketball season tickets.
5. ULF liquidated Endowment funds to purchase ULGC.
6. The ULF and ULAA transactions were not transparent.
7. It does not appear the ULF Board of Directors was informed of and/or authorized all of the ULAA property acquisitions.

ULF Policy and Procedural Changes:

ULF is in the process of assessing each property and determining the highest and best use of the ULAA Properties, including potential lease payments to be paid by ULAA in the future. The Office of the President eliminated a significant portion of its annual ticket purchases.

4(e) Unbudgeted or Over-Budget Spending: Other Notable Spending

ULF expended funds on a number of items that appeared to be excessive, not in accordance with UofL's policies, and/or unbudgeted or over-budget contributing to

ULF's liquidation of Endowment Pool assets in excess of the Spending Policy Allocation.

Summary of Findings:

1. ULF funded $5.2 million of marketing and advertising expenditures which contributed to ULF exceeding the ULF Budget.
2. ULF funded $4.5 million of legal and landscaping expenditures which contributed to ULF exceeding the ULF Budget.
3. ULF paid $243 thousand in consulting fees to certain Entrepreneurial Group members.
4. Certain Office of the President procurement card purchases may not be in accordance with UofL's policies.

ULF Policy and Procedural Changes:
ULF is in the process of reviewing and identifying unnecessary expenditures, including future spending commitments made by the former administration, and negotiating price reductions or extended payment terms where possible. UofL is also in the process of implementing changes to its procurement card policies and procedures, creating a centralized procurement card review team who will review procurement card reports in addition to the departmental review.

5 Underwater Endowments:
Understated Underwater Endowments

As a result of ULF's excessive spending, ULF's Underwater Endowments (Permanently Restricted Endowment Programs for which the current market value is less than the Endowment Gift Principal) have increased substantially. ULF reported $0.6 million, $4.5 million, and $23.7 million of Underwater Endowments as of June 30, 2014, 2015, and 2016, respectively. Had ULF not overstated the market value of certain ULF Managed Endowment Pool assets, ULF would have potentially reported Underwater Endowments up to $10.4 million, $29.2 million, and $58.0 million as of June 30, 2014, 2015, and 2016, respectively.

Summary of Findings:

1. ULF's spending resulted in reported Underwater Endowments of $23.7 million as of June 30, 2016.

2. ULF's overstated Endowment Pool market value resulted in ULF understating its Underwater Endowments by up to $34.4 million

ULF Policy and Procedural Changes:
In fiscal year 2016, ULF implemented changes to start removing Current Use Gifts from the Endowment Pool and separately investing them in marketable securities. Additionally, ULF is assessing the collectability of the UHI Line of Credit, identifying the source of funds and timing in which it expects ULF Subsidiaries (and now ULREF) could potentially repay the loans and will record valuation allowances based on its assessment. Additionally, ULF modified its Spending Policy to reduce its spending and expects that will mitigate (and potentially limit) the impact of these market value changes will have on Underwater Endowments.

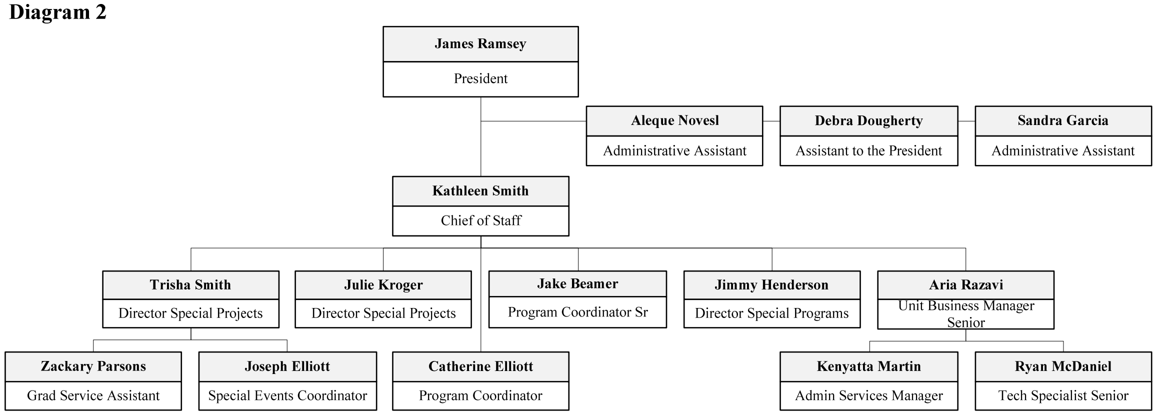
Background

University of Louisville

UofL is a state supported research university with 12 colleges and schools operating across three campuses: Belknap Campus, the Health Sciences Center, and ShelbyHurst Campus. The University of Louisville Athletic Association ("ULAA") and the University of Louisville Research Foundation ("ULRF") are separate legal entities, related to UofL through common management and trustees.

The UofL Board of Trustees governs UofL, while the UofL President, in conjunction with the "leadership team", manage UofL's day-to-day operations. The UofL "leadership team" evolved during the Review Period, but generally consisted of the Vice Presidents and Deans of each of the colleges/schools. The UofL President oversaw the Office of the President which consisted of the following individuals during the Review Period:[3]

Diagram 2



University of Louisville Foundation

ULF is an independent, 501(c)(3) not for profit corporation that exists to support UofL activities. Specifically, UofL designated ULF to receive, invest, and distribute gifted and endowed funds to UofL.

ULF Entity Structure

As of June 30, 2014, ULF's operations included the activities of ULF and the following entities (collectively, the "ULF Subsidiaries"):

- **ULH, Inc.** ("ULH") leases land and issues revenue bonds for student housing and manages and operates certain student housing properties.

[3] This organization chart includes employees identified as working in the Office of the President from FY2014 to FY2016, noting roles and responsibilities may have changed during this period. A&M obtained the titles listed from the UofL payroll data.

Background

- **University Holdings Inc.** ("UHI")[4] provides oversight and management support to the following ULF Subsidiaries:
  - **University of Louisville Development Corporation, LLC** ("ULDC") develops and manages real estate operations at UofL's ShelbyHurst Campus. ULDC is the 51% owner of Campus One, LLC ("Campus One"), Campus Two, LLC ("Campus Two") both commercial real estate developments located on UofL's ShelbyHurst campus.[5]
  - **Nucleus Kentucky's Life Sciences and Innovation Center, LLC** ("Nucleus") integrates University resources with those of the region specifically as it relates to maintaining a research park in downtown Louisville.
  - **MetaCyte Business Lab, LLC** ("MetaCyte) identifies and supports commercially promising health science discoveries in the region.[6]
  - **AAF-Louisville, LLC** ("Cardinal Station") manages the Cardinal Station real estate operations.
  - **KYT-Louisville, LLC** ("KYT") manages the purchase and development of real estate adjacent to UofL's Belknap Campus.
  - **Phoenix Place-Louisville, LLC** ("Phoenix Place") manages the purchase and development of property near UofL's health sciences campus.
- **Louisville Medical Center Development Corporation** ("LMCDC") holds and administers tax incremental financing projects.
- **The Nucleus Real Properties** ("TNRP") develops the property, including improvements, and manages the building at 300 E Market Street.
- **CCG, LLC** ("CCG") acquired and operates the Cardinal Club golf course managed by the ULAA.
- **Minerva-Louisville, LLC** ("Minerva") administered various deferred compensation plans/agreements until July 2014 when the deferred compensation plans were assigned to DCPA (see below).
- **DCPA, LLC** ("DCPA") administers the deferred compensation plans/agreements assigned to it by Minerva in July 2014.

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[4] UHI was formerly named Cardinal Real Estate, Inc.
[5] NTS Realty Holdings Limited Partnership ("NTS") owns the remaining 49% of these joint ventures.
[6] ULF also created MetaCyte Equity Holdings, LLC to hold equity shares obtained by MetaCyte through development with startup corporations. However, A&M understands MetaCyte nor ULF ever transferred equity shares to MetaCyte Equity Holdings, LLC.

Background

The University of Louisville Real Estate Foundation, Inc. ("ULREF") was founded on November 19, 2014. ULREF's operations included the activities of ULREF and the following entities (, the "ULREF Subsidiary"):

- **Institute for Product Realization, LLC** ("IPR") develops, manages, and engages in real estate activity near the UofL Belknap campus. IPR is the 50% owner of UL Additive Manufacturing Competency Center, LLC ("AMCC").

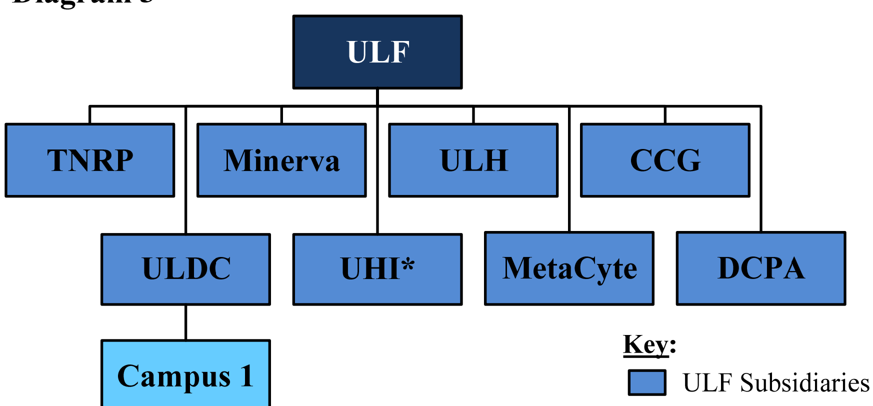
ULREF is also a joint venture partner in the following entities:

- **220 South Preston, LLC** ("220 South Preston") develops and manages a parking garage held 80% by ULREF and 20% by NTS.
- **Campus Three, LLC** ("Campus Three") ULREF is a 51% owner of Campus Three, a commercial real estate development located on UofL's ShelbyHurst campus.

In FY2016, ULF contributed certain capital assets to ULREF and assigned its membership interests in Phoenix Place, KYT, Cardinal Station, Nucleus, and LMCDC. Additionally, ULDC assigned its ownership interest in Campus Two to ULREF.

The below diagram illustrates the ULF Subsidiary structure as of FY2016.

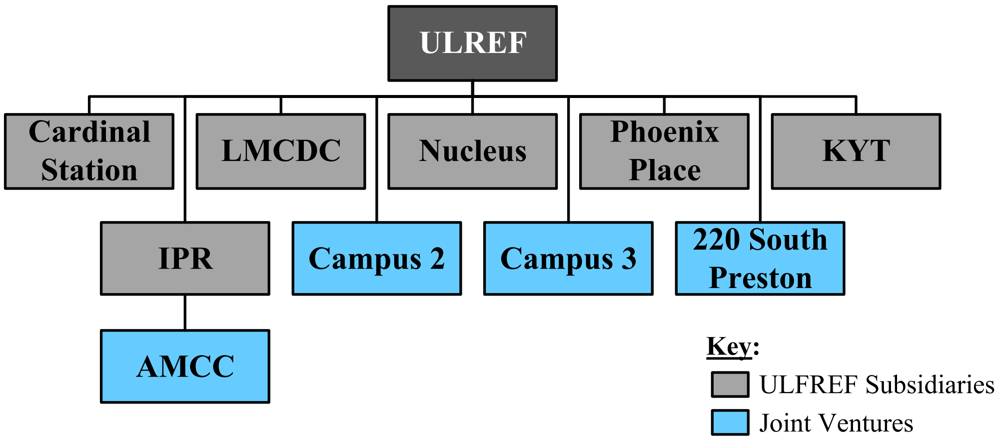
Diagram 3



Note:
*UHI manages ULDC and MetaCyte.

The below diagram illustrates the ULREF Subsidiary structure as of FY2016.

Diagram 4



ULF Organizational Structure

ULF is directed and supervised by a 15-member Board of Directors (the "ULF Board of Directors") comprised of (i) one Ex Officio Director, the UofL President; (ii) four members of the UofL Board of Trustees; and (iii) ten at-large members who are not a trustee, officer, or employee of UofL. The ULF Board of Directors operates using the following committees:

- Executive Committee
- Committee on Finance
- Nominating Committee
- Audit Committee
- Development Cabinet
- Property Committee[7]

The By-Laws of the University of Louisville Foundation, Inc. adopted March 8, 2010 (the "ULF By-Laws") describe the principal officers of ULF as the Chairman, Vice Chairman, President, one or more Vice Presidents, Secretary, and Treasurer. Historically, the UofL President was also the ULF President, including during the Review Period. A&M understands the following ULF employees held officer positions at one point during the Review Period, (collectively the "ULF Officers"):[8, 9]

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[7] A&M did not note any reference to the Development Cabinet or the Property Committee in the ULF Board of Directors minutes.

[8] Each of the ULF Officers were also UofL employees.

[9] The titles for the ULF Officers may have changed overtime, however, A&M understands the individuals identified below generally held the same position during the Review Period except for Mr. Tomlinson who effectively replaced Mr. Curtin when he retired in late 2013. Prior to this, Mr. Tomlinson held the position of Assistant Vice President of Finance.

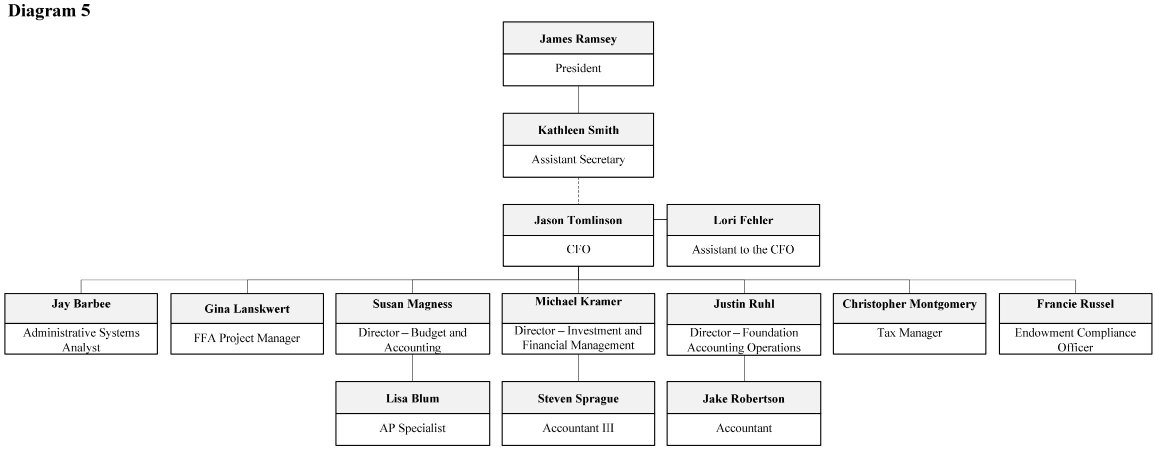
Background

Table 1

Employee	UofL Title	ULF Title
James Ramsey	President	President
Shirley Willihnganz	Provost	Executive Vice President
Kathleen Smith	Chief of Staff of the President	Assistant Secretary
Mike Curtin	Vice President of Finance	Assistant Treasurer
Jason Tomlinson	Assistant Vice President of Finance	Assistant Treasurer

ULF's organizational and operational structure evolved over the Review Period as ULF began to separate its operations from UofL. Historically, UofL employees typically performed the ULF financial reporting and administrative tasks, with certain employees having responsibilities for both ULF and UofL. During this period, the only way to identify ULF employees was based on how UofL allocated an employee's salary for financial reporting purposes, as UofL provided payroll services for both UofL and ULF employees, issuing one paycheck. In July 2016, ULF created the Foundation Financial Affairs Office ("FFA"), creating separation between ULF employees and UofL employees. The diagram below illustrates the FFA organizational structure in July 2016:

Diagram 5



ULF Subsidiaries, ULREF Organizational Structure

ULF provided by-laws for certain ULF Subsidiaries (UHI, ULH, and TNRP), which set forth the purpose of the entity and the composition of the board of directors. According to the respective by-laws, a board of directors composed of the members of the ULF Executive Committee managed the property and affairs of UHI and TNRP. The ULH board of directors is composed of six "at-large" members of the ULF Board of Directors.

Background

A&M understands the operations of the other ULF Subsidiaries are under the purview of the ULF Board of Directors.[10]
Typically, the ULF Subsidiaries did not require dedicated personnel as ULF Subsidiaries have limited operations. CCG, MetaCyte and Nucleus had dedicated employees and/or outsourced financial and administrative tasks to third-parties. The other ULF Subsidiaries utilized ULF employees and/or outsourced administrative services to third-parties.

Other than IPR, ULREF does not have any direct employees with all administrative services being provided by ULF employees.

Accounting and Financial Reporting
ULF prepares consolidated financial statements including the balances and transactions of the ULF Subsidiaries. BKD, LLP ("BKD") audited ULF's financial statements for FY2014, FY2015, and FY2016 (the "Audited Financial Statements"). Additionally, ULF prepares separate unconsolidated financial statements for ULH and TNRP, which BKD also audits. The activity for these entities is also included in the Audited Financial Statements. ULREF also prepares consolidated financial statements including the balances and transactions of the ULREF Subsidiaries audited by BKD.

Prior to July 1, 2015, ULF, ULREF, and select ULF Subsidiaries recorded its financial transactions in PeopleSoft, the same financial accounting and reporting system used by UofL. The remaining ULF Subsidiaries and ULREF Subsidiary utilized third party financial accounting and reporting services, where the FFA recorded quarterly journal entries to account for the ULF Subsidiary or ULREF Subsidiary activity in its respective general ledger. The table below identifies the entity or third-party service providers responsible for the financial accounting and reporting for each entity at or around June 30, 2014:

[10] A&M understands other ULF Subsidiaries, such as Nucleus, had advisory boards.

Table 2

Subsidiary	ULF	NTS	DDAF	A&O	ULAA	ULREF
220 South Preston		X				
Cardinal Station			X			
CCG					X	
DCPA	X					
IPR						X
KYT			X			
LMCDC			X			
MetaCyte			X			
Minerva	X					
Nucleus			X			
Phoenix Place	X					
TNRP		X				
UHI			X			
ULDC			X			
ULH				X		

During FY2015 and FY2016, ULF transitioned the financial accounting and reporting for all ULF Subsidiaries and the ULREF Subsidiary to its internal systems with the exception of TNRP and ULH. In FY2016, ULF, ULREF and the ULF Subsidiaries transferred their financial reporting to Microsoft Dynamics, a separate financial reporting system from UofL.

Cash Management

ULF operates under an agency agreement with UofL whereby UofL receives and disburses funds on behalf of ULF. Specifically, prior to July 1, 2015, UofL processed ULF's accounts payable, payroll, and a portion of ULF's gift receipts. Typically, UofL and ULF settle the account in the subsequent month, netting the receipts and disbursements and then ULF transfers cash to UofL (as the disbursements are greater than the receipts).

Historically, ULF used one operating bank account to fund all of its transactions commingling gift, endowment, and other cash receipts, as well as disbursing funds to UofL, ULF Subsidiaries, and unrelated third-parties (the "ULF Operating Account"). In March 2015, ULF opened a second bank account (the "ULF Fund Account"), intending to transition general operating activity to the ULF Fund Account and use the ULF Operating Account endowment related cash activity in FY2016.

During the Review Period, although each ULF Subsidiary generally maintained a separate operating account (with the exception of ULDC, Cardinal Station, and Phoenix

Place), the ULF Subsidiaries also used the ULF Operating Account to fund operations. ULREF maintains a separate operating bank account to fund its transactions.

General Procedures and Findings

Prior to A&M's Engagement, former ULF President, Dr. James Ramsey, resigned and ULF placed Kathleen Smith, Chief of Staff for the President and Assistant Secretary, on administrative leave. In December 2016, Keith Sherman became the ULF Interim Executive Director and Chief Operating Officer to manage ULF's and ULREF's operations. Mr. Sherman worked with the Foundation Financial Affairs Office to review and modify ULF's policies and procedures (a process the Foundation Financial Affairs Office started prior to Mr. Sherman's arrival). ULF has implemented a number of policy and procedural changes that address the issues discussed throughout this report, identified as "ULF Policy and Procedural Changes."

During the course of the Engagement, A&M performed a number of general procedures to obtain an understanding of ULF's organizational and operational structure. Based on its initial findings, A&M performed further review and analysis on select transactions or types of transactions, focusing on ULF's sources and uses of cash.

General Procedures

Procedure 1 – *Preserved Data*

Prior to A&M's engagement, UofL's IT Enterprise Security Analyst imaged select ULF servers and UofL servers used by the Office of the President. Additionally, UofL IT had placed certain individuals emails accounts on "litigation hold" within the email exchange server, which automatically preserves all emails sent and received by the user after the date the litigation hold is set, even if the user deletes the email.[11] A&M interviewed UofL's IT team to understand UofL and ULF's IT infrastructure, including system backups, device issuance, and data preservation performed prior to UofL engaging A&M.

A&M worked with UofL IT and human resources personnel to identify ULF employees, UofL employees who provided ULF services, and UofL employees working in or with the Office of the President (the "Custodians"). A&M's forensic technology team imaged computer hard drives and mobile devices used for UofL or ULF business purposes (as available) for each of the Custodians.[12]

[11] A&M understands UofL and ULF generally place employees on "litigation hold" as advised by the Office of the Vice President for Strategy and General Counsel.

[12] Several Custodians declined to allow A&M image their mobile devices, claiming it was a personal device not paid for by UofL or ULF.

General Procedures and Findings

Procedure 2 – *Reviewed Documents*

A&M loaded the data collected for select Custodians into a secure review platform and performed targeted keyword searches identifying emails and other documents relevant to the Engagement. Throughout this report, A&M references select documents identified relevant to specific topics. A&M also performed document searches on the Office of the President and ULF servers imaged, using certain documents identified to perform analyses and further A&M's understanding of certain issues.

Procedure 3 – *Reviewed the ULF Board of Directors Meeting Minutes*

A&M obtained and reviewed the ULF Board of Directors minutes posted on the ULF website. Noting certain meeting minutes were not posted on the ULF website (e.g. the ULF Executive Committee Meeting minutes prior to FY2012), A&M searched the Office of the President and ULF servers, as well as met with the UofL/ULF board liaison to obtain missing ULF Board of Directors minutes.

Procedure 4 – *Conducted Interviews*

Throughout the course of its Engagement, A&M conducted more than 100 interviews of current and former UofL and ULF employees, as well as third-party financial and legal services providers. Throughout this report, A&M identifies the key individuals A&M spoke to with respect to specific topics. A&M requested an in-person interview with Dr. James Ramsey, former UofL President, however, Dr. Ramsey declined A&M's requests, only offering to respond to written questions. A&M explained to Dr. Ramsey that interviews via written correspondence are ineffective and inefficient due to the fluid nature of the discussion and need to review documents during the process. Dr. Ramsey again declined an in-person interview with A&M.

A&M also conducted interviews with current and former ULF Board of Directors members. Exhibit 1 – Board of Directors Listing identifies the individuals who served on the ULF Board of Directors during the Review Period and the committees on which they served as reflected in the meeting minutes. As indicated in Exhibit 1, A&M requested interviews from 18 of the ULF Board of Directors members, however, only 10 agreed to speak with A&M.

Procedure 5 – *Aggregated and Reviewed Cash Transactions*

A&M obtained and agreed ULF's and ULREF's transactional detail for FY2014 through FY2016 to the Audited Financial Statements, confirming the data provided was complete. Because UofL disburses and receives cash on behalf of ULF, A&M also obtained and agreed UofL's transactional cash detail for FY2014 through FY2016 to UofL's audited financial statements.

A&M reviewed all ULF, ULF Subsidiary, and ULREF cash transactions greater than $100 thousand to understand the source or recipient and purpose of the cash transactions, reviewing journal entry support, bank statements, and other relevant documentation. A&M categorized each significant cash transaction to understand ULF's sources and uses of cash from FY2014 through FY2016. A&M then identified significant cash transactions to review in further detail, such as real property acquisitions, investments, and transfers to ULF Subsidiaries (discussed in further detail throughout this report).

General Findings

Finding 1 – *UofL's and ULF's substandard information technology policies and procedures resulted in lost data for certain Custodians.*

Despite certain UofL and ULF employees leaving or being put on administrative leave amidst media scrutiny and the start of the RFP process, UofL and ULF did not preserve all available computers and mobile devices used by these employees. Although UofL had put certain employees' email accounts on "litigation hold", UofL did not preserve all available computer hard drives or other devices utilized by these employees. For example, UofL IT had erased and repurposed Dr. Ramsey's hard drive prior to A&M's engagement.

Generally each UofL department has its own designated IT support person referred to as a "Tier One." UofL does not maintain a standard set of policies and procedures all Tier Ones are required to follow, resulting in inconsistent data preservation issues as well as IT inefficiencies. For example, each Tier 1 maintains its own independent computer back-up processes and procedures, resulting in variations in frequency and format of data back-ups performed on system servers and computers.

Finding 2 – *The ULF Board of Directors lacked knowledge and oversight of certain significant transactions.*

A&M found the ULF Board of Directors interviewees to have limited understanding of ULF's complex structure and operations, a number of them stating they were not aware of, did not recall, and/or did not understand significant transactions discussed throughout this report. Notably, the ULF Board of Directors meeting minutes reflect limited discussion around significant, complex transactions. The ULF Board of Directors approved a number of complex, significant transactions through consent agendas (a practice typically used to approve non-controversial items or items not requiring discussion). Generally, it does not appear ULF Board of Directors understood or questioned the transactions they approved, trusting-in and relying on the ULF Officers. Several ULF Board of Directors interviewees described it as "rubber stamping" or simply ratifying decisions already made with limited discussion or questions. Although a number of ULF Board of Directors interviewees noted the ULF Board of Directors did not operate like other boards served on, even commenting "not enough information flowed to the [ULF Board of Directors]," they did not ask questions or work to change the environment.

Additionally, ULF Board of Directors members chairing or serving on certain committees did not appear qualified for those roles. For example, the Audit Committee Chair was a medical doctor with limited financial reporting or accounting experience while other ULF Board of Directors members who worked in the financial services industry were not on the Audit Committee or Finance Committee.

Finding 3 – *ULF Officers did not provide the ULF Board of Directors with sufficient information to allow them to make informed decisions.*

Despite ULF's complex operating structure, numerous ULF Board of Directors interviewees said they were not provided a board orientation or any documentation regarding ULF's structure and operations when they joined the ULF Board of Directors. ULF Board of Directors interviewees stated ULF typically only provided meeting documents the day or night before a meeting, which did not provide sufficient time to review the materials prior to voting. A number of ULF Board of Directors interviewees also stated the ULF Board of Directors meetings "were scripted" and questions were discouraged. Additionally, ULF Board of Directors stated transactions brought to them for approval had already occurred or were "too far along in the process" for the ULF Board of Directors to even have the option to vote against the transaction.

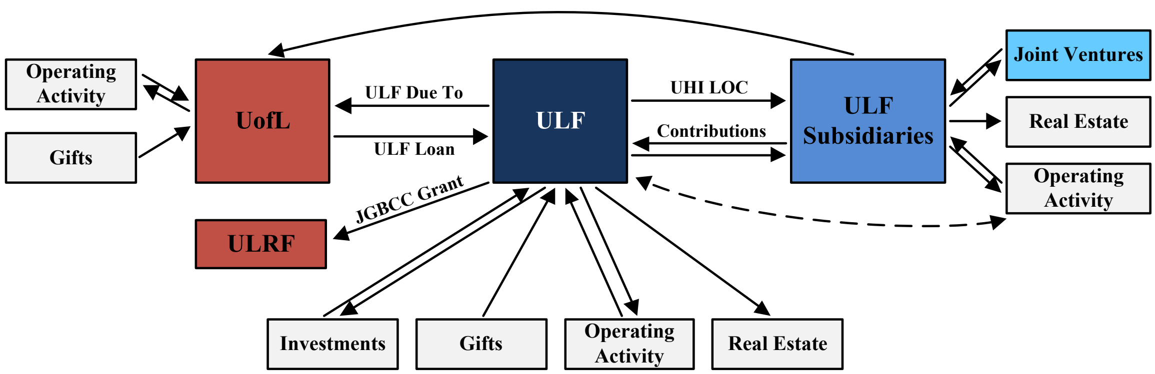
Additionally, items presented at ULF Board of Directors meetings (as reflected in the meeting minutes and recalled by ULF Board of Directors interviewees) did not appear to be complete, making it difficult for ULF Board of Directors to make informed decisions. For example, as discussed in more detail later in this report, the ULF Board of Directors minutes reflect a 5.5% Spending Policy rate is presented to the ULF Board of Directors for approval, however, the actual Spending Policy rate is 7.48% (which is only reflected in the details of the ULF Budget).[13]

[13] Other examples of ULF Officers not providing complete information to the ULF Board of Directors are presented throughout this report.

Finding 4 – *ULF commingles its cash resulting in an inability to identify the source of funds for a specific disbursement.*

ULF's commingling endowment, gift, and operating cash makes it difficult to identify the source of funds used for any one transaction during the Review Period. Additionally, ULF's use of the ULF Operating Account to fund ULF Subsidiary transactions (paying expenses for or receiving money on behalf of ULF Subsidiaries from the ULF Operating Account rather than the ULF Subsidiary's bank account) further complicated ULF's cash management. Finally, UofL processing AP and paying expenses on behalf of ULF and at times ULF Subsidiaries added another layer of complexity to identifying ULF's sources and uses of cash. The following diagram depicts the flow of ULF's cash during FY2014:

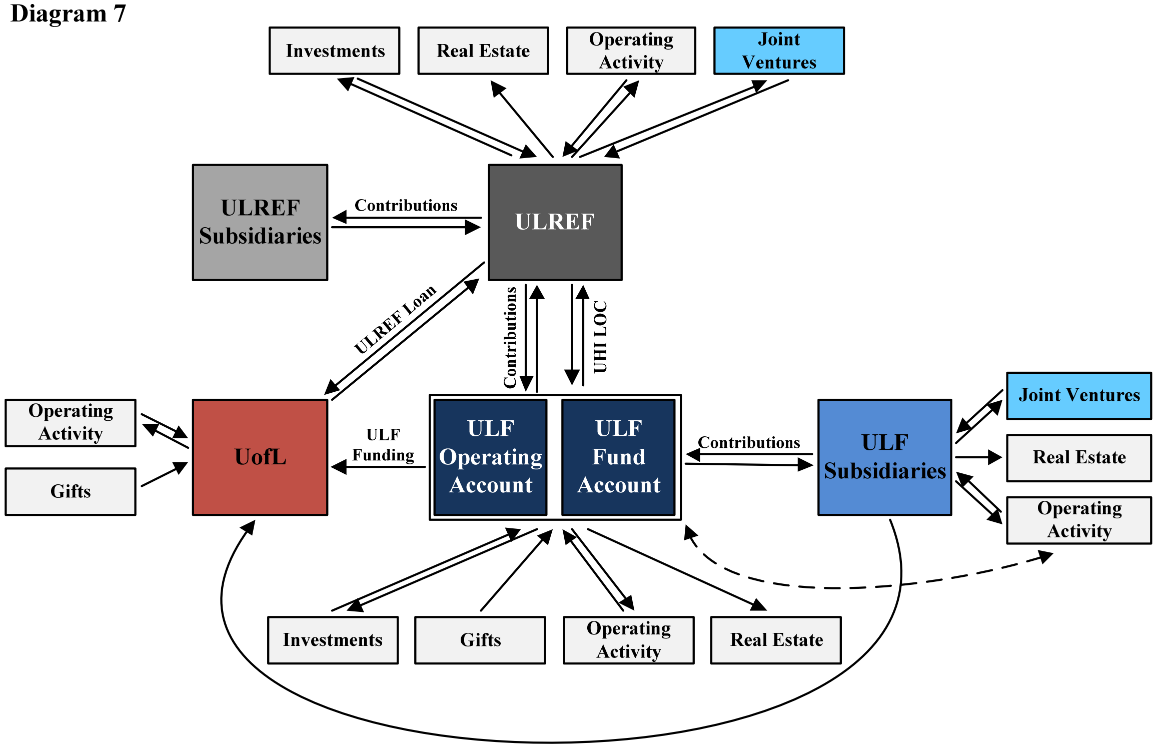
Diagram 6



Although ULF opened the ULF Fund Account with the intention of separating endowment related cash transactions from ULF operating activities in FY2016, it continued to use the ULF Operating Account for operating and endowment gift/investment activity. ULF's transition of certain ULF Subsidiaries to ULREF in FY2016 added additional complexity to ULF's cash transactions.[14] The following diagram depicts the flow of ULF's and ULREF's cash during FY2016:

[14] In FY2016, ULF transferred LMCDC, Nucleus and KYT to ULREF.

Diagram 7



ULF's main sources of cash (cash inflows) were gifts, real estate income (including rental income, TIF proceeds and real property financing), and proceeds from liquidated investments. ULF's main uses of cash (cash outflows) were transfers to UofL to fund endowment and gift spending, real estate acquisitions and development, investments, transfers to ULF Subsidiaries and ULREF, and ULF operating activity (including payroll, professional services, marketing).

ULF Policy and Procedural Changes

Cash Management

In FY2017 ULF stopped commingling endowment, gift, and operating cash, using three separate bank accounts to fund each type of transaction. Currently, ULF uses the ULF Operating Account for endowment related transactions, including endowment investments and funding the Spending Policy Allocation. ULF also opened a separate bank account to maintain Current Use Gift funds, investing these funds separately from the Endowment Gifts in various investments based on expected cash liquidity needs. Finally, ULF now uses the ULF Fund Account to fund ULF's operations.

General Procedures and Findings

ULF Board of Directors Oversight

ULF replaced the ULF Board of Directors with six new members in February 2017. The FFA provided the new ULF Board of Directors members with a detailed orientation, explaining ULF's entity structure, Endowment Pool, investments (equity and real estate). The detailed ULF Board of Directors orientation explains how the Endowment Pool is calculated and how a unitized investment pool operates. Further, the orientation includes an overview of all ULF and ULREF Subsidiaries, including a brief explanation of each entity and how the FFA expects each entity to generate potential future operating income.

ULF Financial Information Provided to ULF Board of Directors

In addition to the new detailed ULF Board of Directors orientation materials, the FFA also provides more detailed financial information to the ULF Board of Directors members. Per discussions with the FFA, the FFA provides detailed financial reporting metrics to the ULF Board of Directors, including endowment valuations, Startup Company valuations and budget to actual analyses.

A&M Recommendations

UofL and ULF Data Preservation

A&M recommends UofL/ULF create a centralized asset inventory database to manage and track UofL/ULF devices provided to employees. Additionally, A&M recommend UofL centralize its IT operations (including desktop support, server hosting, and procurement) creating consistent policies and procedures across all departments. ULF should ensure that its IT policies and procedures are consistent with UofL.

The Endowment

Donation and Gifts

ULF's primary purpose is to receive and administer donations (or gifts) made to UofL. The gift agreement or gift instrument identifies whether a gift is (i) a current use gift where the entire gift may be spent down in its entirety ("Current Use Gift") or (ii) endowed where the gift principal[15] is held in perpetuity and UofL may only use the income generated through investment ("Endowment Gift").

Although Current Use Gifts may be spent down in their entirety, these gifts can be unrestricted or restricted based on donor stipulations. Unrestricted current use gifts may be used for a general purpose, while donor stipulations may limit a restricted Current Use Gift to a department, school, or defined purpose.

Endowment Gifts limited by donor stipulations that either do not expire or cannot be fulfilled by UofL meeting some pre-determined requirement are referred to as "Permanently Restricted Endowments." Endowment Gifts that have donor stipulations that expire over time or restrictions removed when UofL meets a specified requirement are referred to as "Temporarily Restricted Endowments." At times, ULF may endow one or more Current Use Gifts, creating an endowment where UofL may only use the income generated from investment. Because the department responsible for this type of Endowment Gift is permitted to make requests to use a portion of the Endowment Gift Principal it is considered a "Quasi Endowment."

ULF uses fund accounting to separately track Endowment Gifts and Current Use Gifts, establishing individual program codes for the Endowment Gifts ("Endowment Programs") and Current Use Gifts ("Gift Programs") in its financial reporting system.

Endowment

ULF invests Endowment Gifts in accordance the gift agreements. ULF utilizes a unitized endowment pool, investing the Endowment Gifts in the same pool of assets (the "Endowment Pool") rather than investing each Endowment Gift separately. Certain Endowment Gift instruments set forth specific investment requirements or other limitations, precluding ULF from commingling the funds for these Endowment Programs in the Endowment Pool. ULF separately invests these funds in securities managed by ULF ("Non-Pool Endowment Assets"). Additionally, ULF is the beneficiary of various trusts and investments held and managed by third-parties referred to as "Funds Held in Trust by Others or FHITBO." FHITBO assets are also not included in the Endowment

[15] The gift principal (or book value) represents the original gift amount plus any additional gift amount received or reinvested in accordance with the gift instrument or ULF policy (the "Endowment Gift Principal"). An Endowment Gift instrument may allow for the expenditure of the Endowment Gift Principal after a period of time or certain criteria is met, at which time UofL may spend down the gift in its entirety.

Pool. The Endowment Pool, Non-Pool Endowment Assets, and FHITBO collectively comprise ULF's "Endowment".[16]

Table 3

	Endowment Assets (in thousands)		
	FY2014	**FY2015**	**FY2016**
Endowment Pool Assets	$ 789,892	$ 744,783	$ 661,672
Non-Pool Endowment Assets	208	1,132	3,192
FHITBO	52,480	51,945	50,798
Total Endowment Assets	**$ 842,579**	**$ 797,860**	**$ 715,662**

Endowment Pool

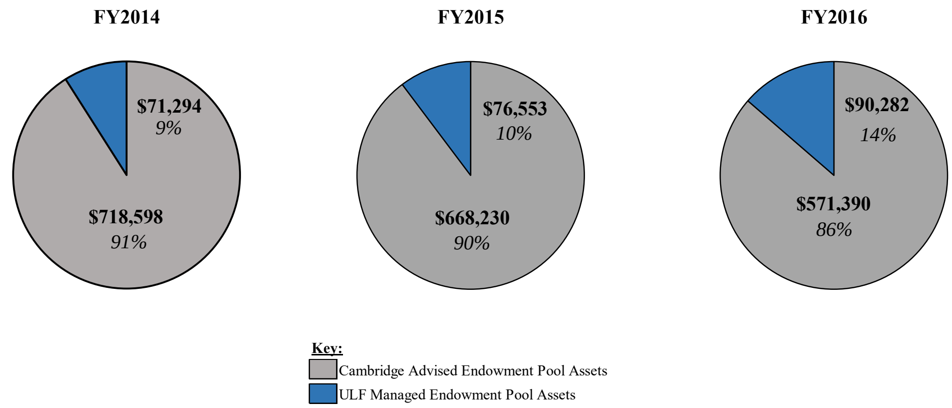
Each Endowment Program invested in the Endowment Pool holds units (or shares) of the Endowment Pool,[17] with new Endowment Gifts receiving shares valued based on the Endowment Pool market value and the total number of outstanding Endowment Pool shares as of the buy-in date. Thus, each Endowment Program "invests" in the total Endowment Pool and participates in the Endowment Pool market value increases and decreases.

Cambridge Associates, LLC ("Cambridge") advises the majority of ULF's Endowment Pool assets identifying asset managers and making investment recommendations ("Cambridge Advised Endowment Pool Assets"). The Cambridge Advised Endowment Pool Assets consist of a variety of investments based on the asset allocation approved by the ULF Board of Directors. ULF manages the remaining Endowment Pool assets (approximately 14% of the Endowment Pool reported market value as of June 30, 2016) (the "ULF Managed Endowment Pool Assets"). The ULF Managed Endowment Pool Assets consist of intercompany loans to ULF Subsidiaries and direct investments in startup companies.

[16] In addition to the Endowment, ULF manages and invests other assets, including real estate and marketable securities. See Exhibit 2 – Endowment and Non-Endowment Assets.

[17] ULF invests the majority of the Endowment Programs in the Endowment Pool unless the gift agreement precludes ULF from investing the Endowment Gift in this manner.

Diagram 8 - Endowment Pool Assets
(in thousandss)



Endowment Pool Market Value Changes

The Endowment Pool market value at the beginning of the period represents the fair value of the assets held in the Endowment Pool at the end of the prior period. The overall Endowment Pool market value changes as ULF purchases and sells individual Endowment Pool assets during the period, as well as the investment returns or losses of Endowment Pool assets held. ULF uses available funds (Endowment Gifts and Current Use Gifts)[18] to purchase additional Endowment Pool assets, increasing the overall Endowment Pool asset value. ULF also liquidates Endowment Pool assets to fund spending, decreasing the overall Endowment Pool asset value. Finally, at the end of the period, ULF adjusts the fair value of the remaining Endowment Pool assets to market value based on information provided by asset managers or the companies in which ULF is invested (as available), recording investment returns (or losses).

Beginning Endowment Pool Market Value
+ Assets Purchased
- Assets Liquidated for Spending
+/- Investment Returns/(Losses)

Ending Endowment Pool Market Value

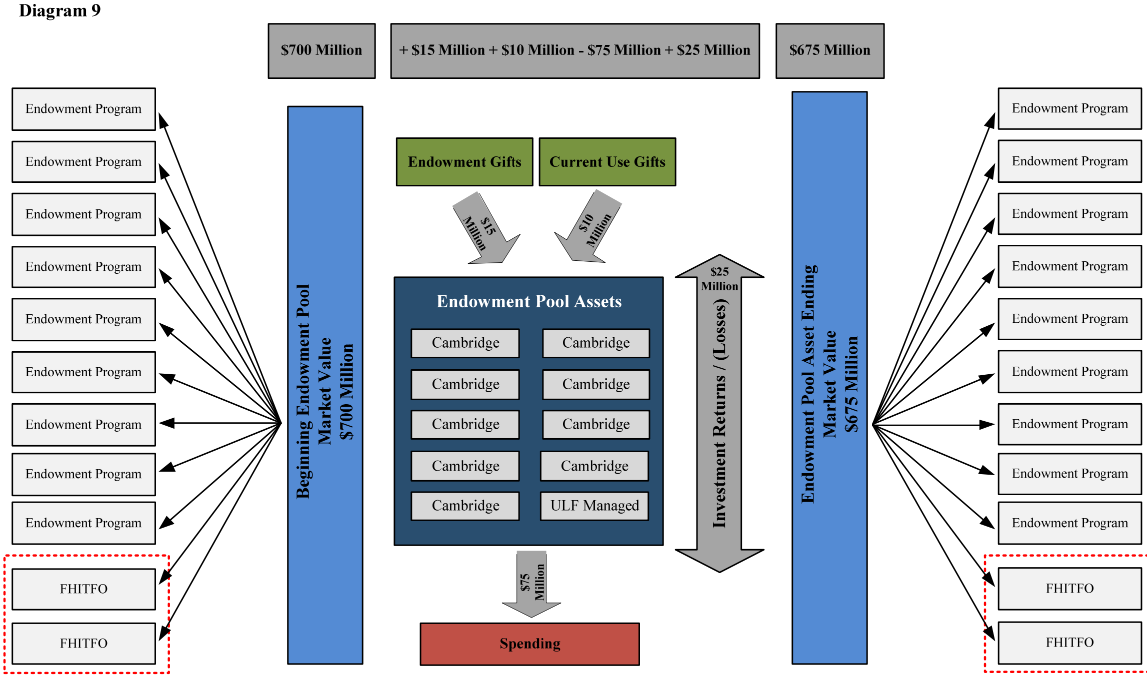
ULF then allocates the ending Endowment Pool market value to the Endowment Programs invested in the Endowment Pool based on the shares held by each Endowment Program as a percentage of total outstanding shares.

[18] As discussed in further detail in Section 3(a), until FY2016, ULF invested a portion of its unspent Current Use Gifts ("Current Use Gift Carryover") in the Endowment Pool, commingling the funds with the Endowment Gifts. ULF treated the Current Use Gifts as an Endowment Pool market value increases, not tracking or attributing the Current Use Gift Carryover in the Endowment Pool to the Gift Programs.

Endowment Pool Assets - Funds Held in Trust for Others
A subset of the Endowment Programs invested in the Endowment Pool represent funds ULF manages on behalf of other entities referred to as "Funds Held in Trust for Others or FHITFO". ULF has agreements with ULAA, Jewish Hospital, and the Louisville Orchestra, whereby ULF manages funds on behalf of these entities, creating Endowment Programs and investing the funds in the Endowment Pool as it does with its own Endowment Programs. Therefore, FHITFO Endowment Programs share in the increases and decreases of Endowment Pool market value based on their outstanding shares of the Endowment Pool in the same manner as any other Endowment Program.

The following diagram illustrates the change in Endowment Pool market value for one period, including FHITFO:

Diagram 9



Endowment Reporting
Cambridge prepares quarterly investment performance reports that provide detailed information regarding the Cambridge Advised Endowment Pool Assets, including asset allocations, investment managers, and investment performance ("Cambridge Investment Reports"). In the Cambridge Investment Reports, the Cambridge Advised Endowment Pool Assets are referred to as the "ULF Pool". Also included in the Cambridge Investment Reports are certain ULF Managed Endowment Pool Assets based on the

market value ULF reports to Cambridge.[19] During the Review Period, ULF started including more Non-Pool Endowment Assets to the Cambridge Investment Report, as well as non-Endowment investments separately managed by ULF. Exhibit 2 – Endowment and Non-Endowment Assets Analysis illustrates the changes in the assets ULF included on the Cambridge Investment Report.

[19] Although Cambridge includes these assets in the quarterly report, they do not review or assess the market value reported by ULF.

1 Unrecorded Endowment Losses

ULF overstated its Endowment Pool market value because it failed to properly adjust the fair value of certain ULF Managed Endowment Pool Assets at the end of each period.

The ULF Managed Endowment Pool Assets consist mainly of intercompany loans to ULF Subsidiaries. ULF reported the fair value of these “assets” based on the outstanding loan balance (principal plus accrued interest) at the end of the period, recording the accrued interest as investment returns[20] without assessing the ULF Subsidiaries’ ability to repay the loan. As explained in Sections 1(a) and 1(b), it is unlikely the ULF Subsidiaries will be able repay the entire outstanding loan balance, as a result ULF overstated the Endowment Pool market value.

[20] Because these are intercompany loans, ULF recorded both the interest income and interest expense in its consolidated Audited Financial Statements.

1(a) Unrecorded Endowment Losses: UHI Line of Credit

Overview

One of the ULF Managed Endowment Pool Assets included in the Endowment Pool market value is ULF's "investment" in certain ULF Subsidiaries through intercompany loans referred to as the "UHI Line of Credit or UHI LOC." On April 16, 2008, the ULF Executive Committee authorized ULF's use of Endowment Pool funds to issue loans to UHI which accrue interest at the prime rate. According to the April 16, 2008 ULF Executive Committee meeting minutes ("April 2008 Executive Committee Minutes"), the ULF Executive Committee authorized UHI to borrow (i) $25 million[21] to acquire real property and improvements to enhance UofL's campus, (ii) $10 million to invest in new ventures, and (iii) $10 million to fund demand credit facilities to certain ULF Subsidiaries. The April 2008 Executive Committee Minutes require UHI issue promissory notes to document the loans.

Immediately following the ULF Board of Directors meeting, the UHI Board of Directors met and authorized UHI to use the $10 million loan from ULF to UHI designated for demand credit facilities to establish demand credit facilities with MetaCyte, ULDC, and Nucleus (subsidiaries wholly owned by ULF).

On November 2, 2011, the ULF Executive Committee reaffirmed the resolution approved in the April 2008 Executive Committee Minutes and consolidated the $25 million to acquire real property and the $10 million demand credit facility loans into a single $35 million authorized amount whereby ULF would make "investments in UHI."[22] Immediately following the ULF Board of Directors Executive Committee meeting, the UHI Board of Directors reaffirmed the $35 million loan from ULF to UHI based on current loan balances outstanding with the ULF Subsidiaries. Each ULF Subsidiary issued a promissory note to UHI for the UHI LOC principal balances outstanding as of November 9, 2011.

UHI served as a pass-through entity whereby ULF loaned money to UHI and UHI in turn loaned funds to ULF Subsidiaries. ULF began transferring funds for the UHI LOC on January 22, 2008 and continued through July 15, 2015. Although the loan proceeds flowed through UHI from an accounting perspective, ULF typically transferred funds directly from the ULF Operating Account to ULF Subsidiaries. The diagram below illustrates the UHI LOC activity.

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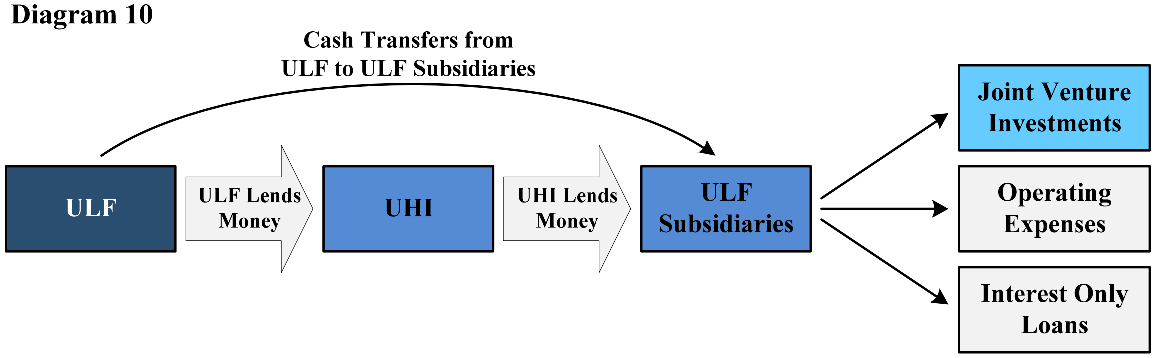
[21] Although the April 2008 Executive Committee Minutes state $23 million, the related resolution accurately reflects the UHI LOC limit of $25 million. As previously noted, the meeting minutes for the April 2008 Executive Committee Minutes were not publicly available on ULF's website. A&M obtained a copy of the April 2008 Executive Meeting Minutes from the Office of the President Server.

[22] Additionally, the ULF Executive Committee reaffirmed the $10 million loan from ULF to UHI to invest in new business ventures discussed in more detail in Section 2.

Diagram 10



ULF accrued interest at the prime rate for the UHI LOC and included the balance at the end of each period (principal plus accrued interest) in the Endowment Pool market value.

Tax Increment Financing

According to interviewees, ULF intended to repay all or a portion of the UHI LOC with tax increment financing ("TIF") proceeds. TIF is a public financing subsidy for development in a specific area where state or local governments pledge a portion of future tax increases in an area to fund the development costs. A number of the ULF Subsidiaries who received UHI LOC proceeds operated in these TIF districts, with a portion of the UHI LOC proceeds funding capital improvements that contributed to the TIF activation.

ULF, through its subsidiary LMCDC, utilizes TIF to finance costs of certain projects. LMCDC entered into agreements with the state and local governments whereby the TIF is activated when a minimum capital investment is made in a predetermined district. After the TIF is activated, LMCDC receives a portion of the incremental increase of certain state and local tax revenues generated in the district over the term of the agreement. LMCDC has received approval and entered into TIF agreements for (i) the Health and Life Sciences district in downtown Louisville ("HSC TIF"), (ii) the Belknap Engineering and Applied Sciences park near the Belknap Campus ("Belknap TIF"), and (iii) the ShelbyHurst Research and Office Park around and including the ShelbyHurst Campus ("ShelbyHurst TIF").[23]

UofL to ULREF Memorandum of Agreement

In July 2015, UofL and ULREF entered into a Memorandum of Agreement whereby UofL agreed to loan ULREF $38 million payable within 3 years ("UofL to ULREF

[23] The specific terms of each TIF agreement vary for each TIF district. For example, A&M understands unlike HSC TIF, the incremental payroll tax revenues for the ShelbyHurst TIF are limited to individuals not previously employed in the state.

MOA"). The UofL to ULREF MOA identified the uses of funds, including $22 million to repay the UHI LOC. ULREF transferred the funds received to ULF and ULF applied the funds to ULDC's, MetaCyte's, and UHI's portion of the UHI LOC balance in August 2015. Several months later, ULF transferred the funds back to ULREF, reestablishing the UHI LOC loan balances for these entities.

UHI LOC Liability Transferred to ULREF
In FY2016, ULF contributed membership interests in certain ULF Subsidiaries and capital assets to ULREF, including Nucleus and KYT. In conjunction with these transactions, ULF and ULREF entered into a Memorandum of Agreement dated June 30, 2016, whereby ULREF agreed to pay ULF $28.9 million ("ULREF to ULF MOA") comprised of (i) the $20.7 million KYT UHI LOC balance, (ii) the $7.2 million Nucleus UHI LOC balance, and (iii) $983 thousand of Nucleus costs funded by ULF in FY2016 for properties transferred to ULREF.[24] Under the ULREF to ULF MOA, the outstanding balance would stop accruing interest and could be repaid at any time without premium or penalty.

Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding of the UHI LOC in part through interviews with the following individuals:

- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Justin Ruhl — ULF Director of Foundation Accounting Operations
- Anne Rademaker — UofL Director of Budget and Financial Planning
- David Saffer — Stites & Harbison – External Counsel

***Procedure 2** – Reviewed UHI LOC Documentation*

- UHI LOC Interest Schedule (old).xlsx:
  The FFA prepared the UHI LOC interest schedule which shows UHI LOC activity, including accrued interest, and calculates the outstanding UHI LOC balances by ULF Subsidiary from January 22, 2008 through January 21, 2014.

[24] A&M includes this amount in the UHI LOC analysis because ULF included the entire $28.9 million the ULREF to ULF MOA balance (which includes these costs) in the Endowment Pool market value.

1(a) Unrecorded Endowment Losses: UHI Line of Credit

- FYE 16 8.31.15 UHI LOC Reconciliation.xlsx:
  The FFA prepared the UHI LOC reconciliation which shows UHI LOC activity, including accrued interest, and calculates outstanding UHI LOC balances by ULF Subsidiary from December 31, 2013 through November 30, 2015.

- UHI LOC Interest Schedule – Revised.xlsx:
  The FFA prepared the revised UHI LOC interest schedule which shows UHI LOC activity, including accrued interest, and calculates outstanding UHI LOC balances by ULF Subsidiary from June 30, 2015 through August 31, 2016. Collectively, the UHI LOC interest schedules and reconciliation are referred to as the "UHI LOC Reconciliations".

- Endowment Manager Reports:
  Investment tracking software reports that provide Endowment Gift Principal, the Endowment Pool market values, and the allocation of the Endowment Pool market value to the individual Endowment Programs based on the outstanding shares at the end of the period.

- Cambridge Investment Reports:
  Quarterly investment reports prepared by Cambridge that provide the investment gains (or losses) during the period for Cambridge Advised Endowment Pool Assets. These reports also include certain ULF Managed Endowment Pool Assets based on fair values ULF reports to Cambridge.

***Procedure 3** – Reconciled Reported UHI LOC Activity by ULF Subsidiary*

To determine outstanding UHI LOC balances by ULF Subsidiary, A&M consolidated the UHI LOC Reconciliations, noting the UHI LOC Reconciliations covering the same periods did not always agree. Next, A&M verified all principal draws and payments from FY2014 through FY2016 to ULF and ULF Subsidiary general ledgers and bank statements. A&M relied on the UHI LOC Reconciliations to identify principal draws and payments prior to FY2014. A&M recalculated accrued interest and outstanding UHI LOC balances by ULF Subsidiary.

A&M also categorized how ULF Subsidiaries used funds drawn on the UHI LOC based on notes in the UHI LOC Reconciliations for draws prior to July 1, 2013. A&M reviewed ULF Subsidiary general ledgers to categorize borrowed money for FY2014 through FY2016.[25]

[25] See Exhibit 3 – UHI LOC Analysis.

Findings

***Finding 1 –** UHI loaned ULF Subsidiaries $52.2 million of Endowment funds the ULF Subsidiaries will likely not be able to repay.*

ULF through UHI transferred $52.2 million on the UHI LOC to ULF Subsidiaries that as of June 30, 2016 (i) do not generate revenue and have minimal assets, (ii) have debt in excess of real property values, and/or (iii) generate minimal cash flows which to date ULF generally has not used to repay the UHI LOC. The following table summarizes the UHI LOC draws and payments for each ULF Subsidiary:[26]

Table 4

	UHI LOC Draws and Paydowns							
	Nucleus	MetaCyte	ULDC			KYT	UHI	
Fiscal Year	Operating Expenses	Operating Expenses	Campus One	Campus Two	Infrastructure and OpEx	Debt Service and OpEx	Operating Expenses	Balance
2008	$ 606,000	$ -	$ -	$ -	$ 894,000	$ -	$ -	$ 1,500,000
2009	221,531	1,058,964	-	-	7,124,039	871,866	-	10,776,400
2010	547,346	1,200,000	-	-	3,403,332	1,199,927	-	17,127,005
2011	1,225,000	1,250,000	1,034,535	-	1,050,000	1,493,066	75,000	23,254,606
2012	988,232	1,375,000	3,935,415	-	950,000	5,675,956	150,000	36,329,208
2013	1,205,000	1,075,000	501,940	300,951	1,600,000	5,199,129	-	46,211,228
2014	1,403,469	1,062,852	(3,570,000)	1,052,640	503,829	3,300,196	22,078	49,986,290
2015	100,000	(240)	-	532,950	(9)	535,000	15,000	51,168,991
2016	982,908	-	-	-	-	45,000	-	52,196,899
	$ 7,279,486	**$ 7,021,576**	**$ 1,901,890**	**$ 1,886,541**	**$ 15,525,191**	**$ 18,320,139**	**$ 262,078**	

ULF was not able to provide any investment return analysis and/or investment risk assessment ULF prepared prior to the UHI LOC resolution in 2008 or 2011 indicating the “loans” to ULF Subsidiaries represented a reasonable investment for Endowment funds. Generally, interviewees stated it was considered a “long-term” investment with the expectation that TIF proceeds would be available to repay the loans, purportedly relying on analyses suggesting “$1 billion” of potential TIF revenue which have not come to fruition.

Based on information provided by the FFA, it appears it was not until September 2013 that ULF prepared an analysis to assess the reasonableness of the UHI LOC. Mr. Ruhl, Director-Foundation Accounting Operations, prepared an analysis provided to Mr. Tomlinson, CFO, comparing the UHI LOC returns (accrued interest) to the returns ULF received on the Cambridge Advised Endowment Pool Assets. Mr. Ruhl’s analysis

[26] The Nucleus includes $983 thousand in Haymarket development activity paid for by ULF on behalf of ULREF. A&M includes this amount in the UHI LOC analysis because ULF included these funds in the UHI LOC market value.

(which assumes the ULF Subsidiaries will repay the loans with interest) indicated ULF's lost returns related to the UHI LOC for FY2013 were $3.7 million.[27] Given the improbability the ULF Subsidiaries will repay the loans, the losses Mr. Ruhl calculated are likely understated.

The following sections outline the UHI LOC proceeds transferred to each ULF Subsidiary and the ULF Subsidiary's status as of June 30, 2016, identifying available assets or positive cash flows (or lack thereof) potentially available for the ULF Subsidiaries to repay the UHI LOC.

MetaCyte (Endowment Pool Market Value $8.1 million)

MetaCyte provided administrative services (e.g. financial reporting) to startup companies typically in exchange for equity in the startup company rather than cash consideration. Therefore, the UHI LOC proceeds were mainly used to fund MetaCyte employees' salaries. MetaCyte ceased operations in FY2015. As of June 30, 2016, the only assets MetaCyte maintained was founder's equity in certain startup companies with a fair value of less than $350 thousand (as reported by ULF).

UHI (Endowment Pool Market Value $295 thousand)

UHI does not independently generate revenue and its only source of funding is contributions from other ULF Subsidiaries.

ULDC (Endowment Pool Market Value $23.4 million)

ULF sub-leases the ShelbyHurst Campus land from UofL for $1 for the rights to develop the land.[28] It appears ULDC used $15.5 million UHI LOC draws to fund ULDC infrastructure development of the ShelbyHurst Campus and operating expenses. Currently, ULF leases the land to the Campus One, Campus Two, and Campus Three.[29] The ground lease payments ULF received from Campus One and Campus Two from FY2014 through FY2016 were less than the maintenance and upkeep costs of the property. Thus, ULDC has not been able to use ground lease payments to repay the UHI LOC.[30]

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[27] See Exhibit 4 – Email from Justin Ruhl to Jason Tomlinson dated September 2013. The FFA interviewees indicated it was around this time ULF started to shut-down the UHI LOC. However, ULF transferred an additional $6.2 million after Mr. Ruhl's email.

[28] A&M understands because the Commonwealth of Kentucky gave the land at ShelbyHurst Campus to UofL, if UofL were to sell the ShelbyHurst Campus land, the proceeds would not inure to UofL.

[29] The development of Campus Three was not complete as of June 30, 2016. Because the ground lease does not require the joint venture to start paying rent until the building is complete.

[30] A&M notes the ground leases for Campus One, Campus Two, and Campus Three are between the joint venture and ULF, not ULDC.

Table 5

Ground Lease Returns	FY2014	FY2015	FY2016	Total
Campus One	$ 29,250	$ 117,000	$ 117,000	$ 263,250
Campus Two	-	84,342	101,211	185,553
ShelbyHurst Grounds Fees	(230,452)	(410,255)	(467,821)	(1,108,528)
Net Ground Lease Payments	**$ (201,202)**	**$ (208,913)**	**$ (249,610)**	**$ (659,724)**

It appears ULDC used $3.8 million of UHI LOC draws to fund its investment contributions in Campus One and Campus Two. An independent firm valued ULF's interest in Campus One and Campus Two at $5.2 million and $3.9 million as of July 1, 2015, respectively. ULDC receives partnership and refinancing distributions from Campus One and Campus Two as a 51% owner in each joint venture. When Campus One refinanced its debt in FY2014, ULDC received a $3.6 million distribution it used to reduce the UHI LOC balance. However, despite receiving an additional $1 million in partnership distributions and refinancing distributions from Campus One and Campus Two from FY2014 through FY2016, ULDC did not make any further payments to reduce the UHI LOC balance.[31] When analyzed in total, the ShelbyHurst development returns are not sufficient to repay the UHI LOC.

Finally, although certain interviewees indicated the ShelbyHurst TIF proceeds would potentially be used to repay ULDC's UHI LOC obligation, as of June 30, 2016 ULF records indicate only $28 million of the $200 million minimum capital expenditure requirement had been met. FFA interviewees indicated at this time ULF does not anticipate receiving any proceeds from the ShelbyHurst TIF.

KYT (Endowment Pool Asset Value $20.7 million)

KYT used the majority of the UHI LOC proceeds it received to make interest-only payments on the third-party loan it had with Republic Bank. KYT owns various properties, none of which currently generate revenue. KYT also has outstanding third-party debt of $19.5 million as of June 30, 2016.

According to interviewees, ULF purchased the KYT properties with the long-term goal of building the Belknap Engineering and Applied Sciences Research Park which would purportedly generate sufficient TIF income to repay KYT's portion of the UHI LOC. Although the Belknap TIF was activated in 2014, ULF has not collected Belknap TIF proceeds as of June 30, 2016. A third-party valuation ULF obtained in August 2016

[31] A March 2013 email exchange among the former ULF Board of Directors Finance Committee chairman, the ULF President, and other ULF Officers indicates confusion as to whether or not the ground lease payments and/or Campus One and Campus Two partnership distributions should be considered returns on Endowment investments or used to fund other UofL initiatives and thus not available to paydown the UHI LOC balance. See Exhibit 5 – Email from Kathleen Smith to Burt Deutsch dated March 2013.

indicated the value of the Belknap TIF was only $17.9 million, derived from the discounted cash flows ULF expects to receive through 2045. This valuation was based on an assumption ULF would receive $1 million per year. According to the FFA, they currently expect to receive less than $1 million per year. [32]

Nucleus (Endowment Pool Asset Value $8.1 million)

Nucleus used the UHI LOC proceeds to fund operations, including salaries. Nucleus owned various properties valued at $13.1 million[33] at or around June 30, 2016, and operated at a cash deficit in FY 2014 through FY2016. Nucleus and the properties it owns reside in the HSC TIF district. As of June 30, 2016, ULF had received $18 million of TIF proceeds, but had not used any of these funds to repay the UHI LOC. A third-party valuation ULF obtained in August 2016 indicated the value of the HSC TIF was $98.7 million, derived from the discounted cash flows ULF expected to receive through 2042.

As explained above, ULF transferred Nucleus and KYT to ULREF in FY2016 and entered into the ULF to ULREF MOA whereby ULREF agreed to repay KYT's and Nucleus's portions of the UHI LOC. The FFA is currently reviewing ULREF's projected revenue and income to determine if and how much of this liability it can repay.

Finding 2 – *The $52.2 million UHI loaned ULF Subsidiaries was $17.2 million more than the $35 million authorized by the ULF Board of Directors.*

In May 2012, seven months after the November 2, 2011, ULF Board of Directors UHI LOC resolution, the UHI LOC principal draws exceeded the $35 million authorization. On May 10, 2012, ULF transferred $500 thousand to ULDC, which increased the outstanding UHI LOC principal balance to $35.2 million. The UHI LOC outstanding principal balance never fell below $35 million after this transfer. A&M did not identify (and ULF did not provide) any subsequent resolutions or authorizations increasing the UHI LOC limit. As of June 30, 2016, ULF had transferred $52.2 million to ULF Subsidiaries through the UHI LOC, $17.2 million more than the ULF Board of Directors authorized.

[32] A&M notes LMCDC, a ULF Subsidiary not managed by UHI is the recipient of TIF proceeds. ULF transferred LMCDC to ULREF in FY2016.

[33] Represents the value of the MedCenterIII, iHub, and Surface Parking Lot discussed in Section 4(c).

1(a) Unrecorded Endowment Losses: UHI Line of Credit

Finding 3 – *ULF did not record the UHI Line of Credit at fair value. Thus, ULF potentially overstated the Endowment Pool market value by $60.6 million.*

As of June 30, 2016, ULF recorded $60.6 million in the Endowment Pool market value for the UHI LOC. [34,35] Rather than assessing the ULF Subsidiaries' ability to repay the UHI LOC or the value of the ULF Subsidiary, ULF recorded the value of the UHI LOC based solely on the outstanding loan balance (principal plus accrued interest). As detailed in Finding 2, the likelihood UHI (or the ULF Subsidiaries) will repay the outstanding loan balance in its entirety is low, thus the fair value of the UHI LOC is far less than the $60.6 million recorded by ULF in the Endowment Pool market value.

In September 2012, the former ULF Board of Directors Finance Committee chairman sent an email to Ms. Smith explaining his disagreement with the manner in which the ULF finance team accounted for these investments, "I think [recording accrued interest] is inappropriate under the framework of treating these all as investments. We do not accrue/record interest on our regular investments. We should not on these either."[36] Despite this email and apparent conversation, ULF continued to record accrued interest as an increase in the UHI LOC market value without any adjustment to account for the entities' ability to repay the loans.

According to FFA interviewees, ULF never assessed whether ULF Subsidiaries were capable of repaying amounts loaned to them, stating ULF continued to record the UHI LOC assets at full value because the "the intent was for the funds to be paid back."

Finding 4 – *ULF Officers did not provide the ULF Board of Directors sufficient information for the ULF Board of Directors to be fully informed about the UHI Line of Credit.*

Although ULF reported the UHI LOC balance on the Cambridge Investment Report, it does not appear details, such as the outstanding balances by ULF Subsidiary, the use of the funds, or manner in which the ULF Subsidiaries would repay the loans is presented to the ULF Board of Directors. For example, at the December 17, 2013 ULF Board of Directors meeting, the ULF Board of Directors passed a resolution to "lend funds to KYT for the purchase" of the Solae property, which ULF initially recorded as a draw on the UHI LOC.[37] The ULF Board of Directors meeting minutes do not reflect (and ULF

[34] This does not include the $11.2 million (reported as part of the "UHI LOC" on the Cambridge Investment Report) related to funds UHI granted to ULRF discussed in Section 1(b).
[35] Although ULF only reported $43 million for the UHI LOC in the June 30, 2016 Cambridge Investment Report, ULF continued to record a market value of $72 million for the UHI LOC in the Endowment Pool.
[36] See Exhibit 6 – Email from Burt Deutsch to Kathleen Smith dated September 2012.
[37] In March 2014, it appears ULF reversed the UHI LOC draw related to the Solae acquisition.

Board of Directors interviewees did not recall) any discussion during the meeting regarding the UHI LOC or the fact that as of that date KYT already owed $18 million to UHI.

Finding 5 – *The ULF Board of Directors failed to properly oversee the UHI Line of Credit.*

A&M notes the Executive Committee, not the complete ULF Board of Directors, authorized the UHI LOC in April 2008 and reaffirmed the UHI LOC in November 2011 when it was reaffirmed. A&M did not find a reference to the UHI LOC in the Finance Committee minutes or ULF Board of Directors minutes to meetings on or around the April 2008 and November 2011 Executive Committee meetings during which the Executive Committee approved the UHI LOC. It appears the Executive Committee authorized the UHI LOC without discussing it with the Finance Committee or the rest of the ULF Board of Directors.

Although emails indicate the former ULF Board of Directors Finance Committee chairman (who also served on the Executive Committee) was deeply involved in ULF's financial transactions, including the UHI LOC, the ULF Board of Directors interviewees were generally not familiar with the UHI LOC. Despite the fact that as of June 30, 2014, 2015, and 2016 the UHI LOC represented 8%, 9% and 6%,[38] respectively of the Endowment Pool market value, A&M did not identify any instances in the ULF Board of Directors meeting minutes where ULF Board of Directors members inquired about the UHI LOC balance to ensure ULF was within the authorized limits and/or to understand how the ULF Subsidiaries would repay the UHI LOC. The UHI LOC is reported on the Cambridge Investment Report provided to the Finance Committee, but it does not appear the Finance Committee ever noticed or inquired as to why the UHI LOC amount on the Cambridge Investment Report exceeded the $35 million the ULF Board of Directors had authorized.

ULF Policy and Procedural Changes

ULF plans to assess the UHI LOC and identify the source of funds and timing in which it expects the ULF Subsidiaries (and now ULREF) would potentially be able to repay the UHI LOC. ULF informed A&M it would then record allowances for the UHI LOC loan balances, appropriately reducing the reported UHI LOC asset value in the Endowment Pool to reflect the fair value based on income streams identified.

[38] These percentages represent the UHI LOC balance reported by Cambridge, which includes the JGBCC Grant discussed in further detail in Section 1(b).

1(a) Unrecorded Endowment Losses: UHI Line of Credit

A&M Recommendations

ULF should provide the ULF Board of Directors Finance Committee (at a minimum) regular, detailed updates regarding the UHI LOC as long as it carries any portion as an asset in the Endowment Pool market value. In the future, ULF should ensure the Finance Committee is aware of all investments, including new Finance Committee members.

1(b) Unrecorded Endowment Losses: JGBCC Grant

Overview

Another ULF Managed Endowment Pool Asset is an intercompany loan from ULF to UHI to fund a grant. In 2011, Dr. James Ramsey, former UofL President, wrote a letter to Dr. Donald Miller, Director of the James Graham Brown Cancer Center ("JGBCC"), committing $10 million to the JGBCC from ULF over four years. On September 1, 2011, UHI issued a promissory note to ULF whereby ULF agreed to loan $10 million to UHI who in turn would use the proceeds to fund a grant to ULRF.[39] Also on September 1, 2011, UHI executed an agreement granting $10 million to ULRF in which UHI agreed to provide funds to the JGBCC for on-going research activities (the "JGBCC Grant"). The JGBCC Grant included a repayment clause requiring ULRF repay UHI if (i) the JGBCC no longer needs funds or (ii) a ULRF Dilution Event under the ACT Operating Agreement occurs.

UofL, through its subsidiary ULRF, owns the rights to intellectual property developed by certain UofL employees. Advanced Cancer Therapeutics, LLC ("ACT"),[40] founded by Dr. Miller (also Director of the JGBCC), is a biotechnology company that focuses on the discovery and development of novel cancer therapeutics. Prior to UHI's issuance of the JGBCC Grant, ULRF and ACT entered into a series of agreements documenting their relationship.

On January 31, 2007, ULRF and ACT entered into the Technology Option Agreement whereby ULRF agreed to grant ACT the option to license certain intellectual property developed by UofL employees to which ULRF owns the rights ("ACT Option Agreement"). Additionally, on January 31, 2007, ULRF and ACT entered into an operating agreement whereby ULRF would contribute its rights under the ACT Option Agreement valued at $5 million for an equity interest in ACT ("ACT Operating Agreement"). Section 2.01(b) of the ACT Operating Agreement states, "…the ULRF Equity Interest shall convert into Common Shares representing 30% of the outstanding Shares on a Fully-Diluted Basis…" on the earlier of (i) a sale of Common Shares for cash consideration of at least $15 million or (ii) the written election of ULRF (the "ULRF Dilution Event"). Section 3.05(c) of the ACT Operating Agreement states, "[n]ot less than 80% of each distribution made to ULRF shall be allocated to and used by UofL for the conduct of research activities in the JGBCC."

ULF began funding the JGBCC Grant on September 13, 2011 and transferred $10 million by September 18, 2014. Similar to the UHI LOC, ULF accrued interest at the prime rate

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[39] ULF accrued interest at the prime rate for the intercompany loan.
[40] Documents indicate ACT may have originally been named Institute for Advanced Cancer Therapeutics, LLC, but changed its name to Advanced Cancer Therapeutics, LLC between September 2007 and June 2008.

on the funds transferred to JGBCC and recorded the balance (principal plus accrued interest) in the Endowment Pool market value. ULF includes the JGBCC Grant balance in the UHI LOC market value reported on the Cambridge Investment Report.

Specific Procedures Performed

Procedure 1 – *Conducted Interviews*

A&M formed its understanding of the JGBCC Grant in part through interviews with the following individuals:

- Milton Pierson — JGBCC Senior Associate Director
- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Michael Curtin — ULF Vice President of Finance and Assistant Treasurer
- David Saffer — Stites & Harbison – External Counsel
- Randy Riggs — ACT President

Procedure 2 – *Reviewed JGBCC Grant Documentation*

- JGBCC Grant Transfer Journal Entry Support:
  A&M reviewed journal entry support for each JGBCC Grant transfer. Journal entry support included journal entries recorded in PeopleSoft, emails explaining how to record JGBCC Grant transfers and the UHI Grant Agreement.

- UHI LOC Reconciliations:
  The UHI LOC Reconciliations discussed in the UHI LOC section reflect timing of JGBCC Grant disbursements and the associated accrued interest ULF recorded.

Procedure 3 – *Reconciled and Analyzed JGBCC Grant Transfers*

To verify JGBCC Grant transfers, A&M reviewed the ULF general ledgers and JGBCC Grant transfer journal entry support. According to interviewees and general ledger detail, JGBCC mainly used the grant proceeds to fund doctors' salaries. Next, A&M used the prime interest rate to recalculate accrued interest and the outstanding principal balance.

Because ULF accounted for the JGBCC Grant transfers similar to the ULF Subsidiary draws on the UHI LOC, recording the principal and accrued interest in its endowment management reports and reporting as part of the UHI LOC balance for the quarterly

Cambridge Investment Reports, A&M included the JGBCC Grant in its UHI LOC analysis.[41]

Findings

Finding 1 – *ULF (through UHI) loaned ULRF $10 million of Endowment funds ULRF will not repay.*

ULRF is only required to repay the JGBCC Grant if the JGBCC no longer needs the funds or a Dilution Event occurs. A&M understands the JGBCC currently operates at a deficit, and has for some time. UofL and JGBCC have no expectation the JGBCC will ever "not need the funds" transferred from ULF. Additionally, as explained further in Section 2, interviewees (including the ACT CEO) informed A&M it will likely wind down if it does not receive additional funding in the next month.

Interviewees informed A&M the JGBCC Grant was not structured as a loan specifically because it was unlikely JGBCC would be able to repay the funds.[42] Interviewees also noted at the time ULF issued the JGBCC Grant the likelihood of a ULRF Dilution Event was considered remote. Further, in the event of a ULRF Dilution Event, the ACT Operating Agreement requires ULRF use at least 80% of proceeds received to fund cancer research, limiting the funds available to repay the JGBCC Grant. For these reasons, ULRF did not record a liability and UHI did not record a receivable for the JGBCC transfers (as advised by ULF's auditors).

Finding 2 – *ULF transferred $10 million of Endowment funds for the JGBCC Grant without approval from the ULF Board of Directors.*

Neither the ULF Board of Directors interviewees nor current ULF employees could identify the specific resolution where the ULF Board of Directors authorized the JGBCC Grant. Interviewees and emails indicate ULF Officers considered the JGBCC Grant part of the total $45 million "investments" authorized in the April 2008 Executive Committee Minutes and reaffirmed in November 2011. Email correspondence among former ULF Officers and staff and ULF's outside counsel indicate the JGBCC Grant was considered

[41] See Exhibit 3 – UHI LOC Analysis.
[42] In a March 2011, the ULF President confirmed the structure of the funding was "not a loan" to JGBCC. See Exhibit 7 – Email from Jim Ramsey to Donald Miller dated March 2011.

part of the $10 million new ventures investment, while other emails among the same individuals indicate the JGBCC Grant was considered part of the UHI LOC.[43]

Even if it were to categorize the JGBCC Grant as part of the UHI LOC or new ventures investment, ULF would have exceeded the ULF Board of Directors authorized limits for both of these items. As discussed in Section 1(a), ULF exceeded the ULF Board of Directors $35 million UHI LOC authorization by more than $17 million. Additionally, as of June 30, 2016 ULF had invested $9.9 million (accounting for contributions and distributions) of the ULF Board of Directors' $10 million authorization for new ventures. Thus, the funds ULF transferred for the JGBCC Grant would exceed the limits set in the April 2008 (reaffirmed in November 2011) Executive Committee resolution. ULF has not identified another ULF Board of Directors resolution authorizing the transfer of Endowment Pool funds to ULRF.

Finding 3 – *The JGBCC Grant does not represent an asset. Thus, ULF overstated the Endowment Pool market value by $11.2 million.*

For all of the reasons outlined in Finding 1, the JGBCC Grant does not represent an asset ULF could reasonable expect to be repaid and should not have been included in the Endowment Pool market value.

Even if ULF considered the JGBCC Grant an asset tied to ACT's performance, ULF failed to correctly account for the JGBCC Grant. As explained in Section 2, ULF independently invested $3.2 million in ACT, unrelated to the JGBCC Grant. As of June 30, 2016, ULF had reduced the value of its direct investment in ACT to $460 thousand, an 86% reduction in value. Therefore, at a minimum, ULF should have reduced the market value of the JGBCC Grant commensurate with its reduction in its direct investment in ACT.

ULF Policy and Procedural Changes

Prior to A&M's discussion with ULF, ULF had removed the JGBCC Grant from the market value used to calculate the Spending Policy Allocation for FY2018. In the course of discussions with A&M, ULF agreed the JGBCC Grant did not represent an asset for

[43] In August 2011, Mr. Curtin, former ULF Officer, informed Ms. Smith the new ventures investments were part of the ULF Board of Directors approved line of credit. In August 2012, Mr. Saffer, Stites & Harbison, informed Mr. Curtin the JGBCC Grant is approved through the "new ventures" investments authorized by the ULF Board of Directors. See Exhibit 8 – Emails between ULF Officers and External Counsel dated August and September 2011.

which it would be repaid. Going forward ULF will remove the JGBCC Grant from the Endowment Pool market value.

2 Recorded Endowment Losses: Startup Company Investments

Overview

Another component of the ULF Managed Endowment Pool Assets are direct investments ULF made in startup companies, mainly in the biotechnology and pharmaceutical industries. As noted above, at the April 2008 Executive Committee Meeting, the ULF Board of Directors authorized UHI to borrow $10 million to invest in new ventures. At the November 2011 Executive Committee Meeting, the ULF Board amended the prior resolution authorizing ULF to invest $10 million in "new ventures identified by the President".[44]

ULF created a group consisting of ULF Officers (Ms. Smith, Mr. Curtin, and eventually Mr. Tomlinson), select ULF Board of Directors members (Frank Weisberg and Mr. Detusch – who continued with the group after leaving the ULF Board of Directors), and Ed Glasscock of Frost Brown Todd, LLC (the "Entrepreneurial Group"). The Entrepreneurial Group identified and performed due diligence on startup companies (with the assistance of Stites & Harbison), making investment recommendations to the ULF President based on their review.[45]

From August 2005 through June 30, 2016, ULF invested $9.9 million (accounting for contributions and distributions in 11 startup companies listed in the table below (the "Startup Companies"):

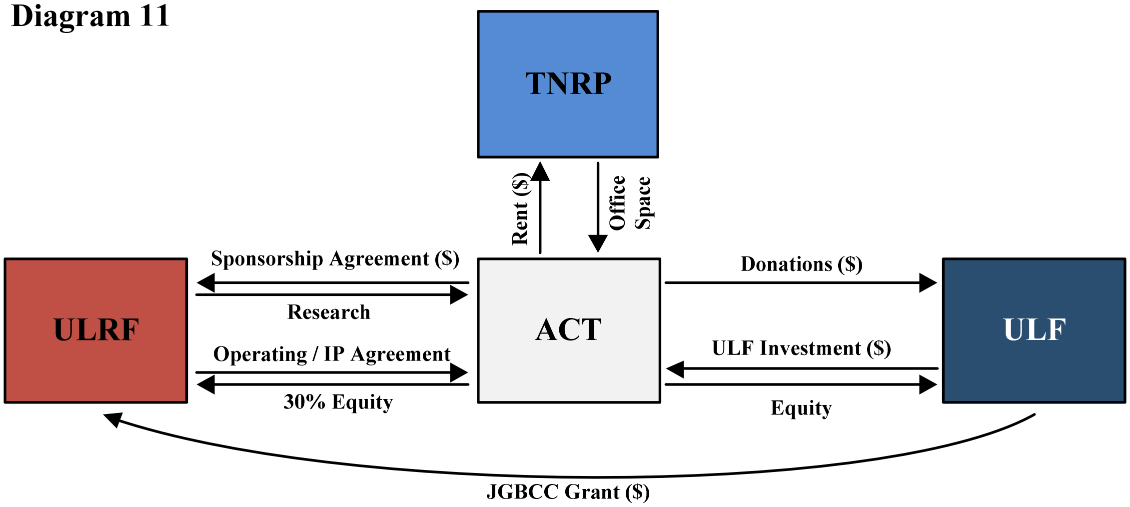
Table 6

Startup Company	Initial Investment Date	Net Investment
ACT	6/30/2010	$ 3,187,184
RhinoCyte	9/18/2009	2,053,401
Edumedics	6/7/2011	1,506,665
Apovax (ApoImmune)	9/18/2009	1,025,000
PGxL	3/21/2011	909,745
Intrepid	4/26/2010	325,000
TNG	12/27/2013	250,654
Antisoma	10/13/2003	250,000
Gnarus	4/13/2010	150,000
Indigo Olive	8/1/2005	100,000
InScope	6/16/2016	100,000
		$9,857,649

[44] This $10 million limit included any "new ventures" ULF had invested to prior to November 2011.
[45] A&M understands the Entrepreneurial Group was also involved in assessing certain real estate transactions.

UofL and ULF interact with the Startup Companies in a variety of ways. First, each of the Startup Companies have an affiliation with UofL, either started by or based on ideas developed by UofL faculty or students. MetaCyte, worked closely with a number of the Startup Companies, providing services such as financial reporting assistance in exchange for equity in the Startup Company. Additionally, a number of the Startup Companies entered into sponsorship agreements with ULRF whereby the Startup Company would pay ULRF for research conducted by UofL researchers that mutually benefited both the Startup Company and ULRF ("Research Sponsorship Agreements"). Finally, a number of Startup Companies also leased office space from ULF Subsidiaries (Nucleus or TNRP). The following diagram uses ACT to illustrate the Startup Companies' complex relationship with ULF and UofL:[46]

Diagram 11



Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding regarding ULF's relationship with the Startup Companies in part through interviews with the following individuals:

- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Kathleen Smith — Chief of Staff for the President and Assistant Secretary
- Michael Curtin — ULF Vice President of Finance and Assistant Treasurer
- Gina Lankswert — ULF Project Manager

[46] Note, not all the Startup Companies have the same relationship with UofL and ULF that ACT does.

• Milton Pierson	JGBCC Senior Associate Director
• Kevyn Martyn	UofL Assistant Vice President of Research and Innovation
• Ed Glasscock	Entrepreneurial Group Member
• Jim Seiffert	Stites & Harbison
• Randy Riggs	ACT President

Procedure 2 *– Reviewed Startup Investment Documentation*

- Startup Company Documentation:
  Startup Company documentation included investor listings, investment proposals, subscription agreements, and due diligence memoranda prepared by the Entrepreneurial Group.

- Startup Investment Summary:
  ULF provided a file identifying contributions, distributions, and market value adjustments (based on K-1s and funding information) from August 2005 through February 2017.

- Donation Activity:
  The UofL Advancement Office provided a list of all donations received from donors from FY2010 through FY2016.

- ULF and UofL Conflict of Interest Forms:
  ULF Board of Directors and UofL Board of Trustees members filled out an annual conflict of interest form ("COI Form") disclosing any potential conflicts of interest. COI Forms required members to identify relationships with individuals employed at UofL or ULF and entities with which UofL or ULF conducted business.

- ULRF Research Sponsorship Agreements:
  Startup Companies held service agreements with ULRF where Startup Companies pay ULRF to perform specific research assignments.

Procedure 3 *– Reconciled Reported Startup Investments and Distributions*

To determine amounts ULF invested in the Startup Companies, A&M consolidated the contributions, distributions, and market value adjustments ULF recorded, verifying all contributions and distributions from FY2014 through FY2016 to ULF general ledgers and bank statements. A&M relied on the Startup Investment Summary provided by ULF to identify contributions and distributions prior to FY2014. A&M summarized ULF's

Startup Company investment activity through FY2016 and reconciled the amounts reported to the in the Endowment Pool market value and Cambridge Investment Report.

Procedure 4 – *Reviewed Other Cash Inflows and Outflows between ULF and the Startup Companies*

A&M reviewed ULF cash transactions from FY2014 through FY2016 to identify cash transactions between ULF and the Startup Companies in addition to the investment contributions and distributions. A&M also reviewed the detailed donations listing for the Startup Companies.

Findings

Finding 1 – *ULF invested $9.9 million of Endowment Pool funds in high-risk Startup Companies currently valued at less than $2 million.*

ULF reported fair value of only $2.7 million as of June 30, 2016 on the $9.9 million ULF invested in the Startup Companies, representing a 73%. Moreover, PGxL and ACT, two Startup Companies for which ULF reported market value as of June 30, 2016, filed for bankruptcy or are otherwise at-risk of closing due to lack of funding. The current market value of these two Startup Companies is likely $0, resulting in an additional $1 million loss in market value for the Startup Companies.

Table 7

Startup Company	Initial Investment	Net Investment	Market Value at	Gain/(Loss)
ACT	6/30/2010	$ 3,187,184	$ -	$ (3,187,184)
RhinoCyte	9/18/2009	2,053,401	-	(2,053,401)
Edumedics	6/7/2011	1,506,665	555,964	(950,701)
Apovax (ApoImmune)	9/18/2009	1,025,000	-	(1,025,000)
PGxL	3/21/2011	909,745	-	(909,745)
Intrepid	4/26/2010	325,000	403,489	78,489
TNG	12/27/2013	250,654	250,654	0
Antisoma	10/13/2003	250,000	45,930	(204,070)
Gnarus	4/13/2010	150,000	252,600	102,600
Indigo Olive	8/1/2005	100,000	100,000	0
InScope	6/16/2016	100,000	100,192	192
		$ 9,857,649	**$ 1,708,829**	**$ (8,148,821)**

Notes:

*Although the FFA reported market values of $460 thousand and $532 thousand for ACT and PGxL at June 30, 2016 respectively, the current financial position of these companies indicate a value of $0.

2 Recorded Endowment Losses: Startup Company Investments

Interviewees and due diligence documentation provided to the Entrepreneurial Group identified Startup Company investments as inherently risky. For example, a 2009 memo from ULF's outside counsel who assisted with due diligence stated, "…bio-technology investments are generally considered to be among the riskier investments…". The due diligence memo went on to explain:

> First, it takes an extremely long period of time (typically ten years or more) for early stage bio-technology companies to become commercially viable. Second, there is a high level of investment risk based on the fact that, historically, less than 1% of them will ever make it to market. I have even seen estimates that only one out of every 5,000 compounds become a commercial success.

It is not clear whether the ULF Board of Directors intended to invest the Endowment Pool funds in as high-risk investments as the Startup Companies when it authorized the ULF President to invest $10 million in "new ventures." Additionally, it is unclear the whether the ULF Board of Directors intended to effectively double down on its investment by also loaning funds to MetaCyte, which has only source of income was equity it received from the Startup Companies. As discussed in Section 1(a), MetaCyte currently holds equity ULF valued at less than $350 thousand and a $8 million loan payable to UHI for the UHI LOC.

Finding 2 – *ULF effectively exceeded the $10 million ULF Board of Directors' authorized limit by guaranteeing loans and providing other benefits, likely costing ULF more than $3.2 million in additional losses.*

In May 2014, ULF guaranteed a portion of PGxL's line of credit with Stock Yards Bank & Trust Company with a maximum liability of $3.5 million plus accrued interest, fees, and other charges. In September 2016, PGxL defaulted on this loan. As of June 30, 2016, ULF recorded a $1.9 million liability related to the loan guarantee in its Audited Financial Statements. In recording the liability, ULF assumed it would receive a 20% discount from the bank on the outstanding $2.9 million loan balance and recover funds by filing a lawsuit against the founding investors (UofL employees). According to FFA interviewees, the bank has not agreed to the 20% discount and it is unlikely the ULF will recover significant funds through a lawsuit against the founding investors. In accordance with the forbearance agreement, ULF is required to pay $75 thousand per month up to the $2.9 million outstanding loan balance.

Additionally, prior to guaranteeing the loan, ULF agreed to provide PGxL $300 thousand to "match" PGxL's renovations costs. A September 2013 email between ULF Officers Ms. Smith and Mr. Tomlinson indicates Dr. James Ramsey, former UofL President authorized $300 thousand that was not recorded as an equity investment or an agreement that required PGxL repay the funds.[47] According to the FFA, ULF recorded the transfer as receivable related to tenant improvements which ULF wrote-off in FY2016 when ULF transferred Nucleus to ULREF.

ULF also provided rent subsidies to the Startup Companies at times not requiring them to pay rent for the office space used in MedCenterIII or TNRP, reducing the rental income ULF received on its real estate investments.

Finding 3 – *It appears ULF did not report the market value of the Startup Company investments to the ULF Board of Directors until fiscal year 2015.*

Throughout the minutes to ULF Board of Directors' meeting minutes there are references to the Startup Company investments and even resolutions passed by the ULF Board of Directors approving ULF's investment in certain Startup Companies. However, during these discussions it does not appear ULF Officers presented the losses ULF recorded related to the Startup Company investments. ULF does not include the market value of the Startup Company investments on the Cambridge Report provided to the Finance Committee until FY2015 and ULF Board of Director interviewees did not recall ULF reporting the market value or losses incurred related to the Startup Company investments.

Finding 4 – *ULF Board of Directors, Entrepreneurial Group, and UofL Board of Trustee members' investments in the Startup Companies were not transparent.*

Interviewees, emails, and investor listings indicate several members of the ULF Board of Directors, UofL Board of Trustees, and the Entrepreneurial Group invested in the Startup Companies in which ULF also invested. The individuals identified did not report these investments on the COI Forms.[48] Ms. Smith, ULF Officer, directed Mr. Glasscock, Entrepreneurial Group member, who was planning on investing in one of the Startup Companies that he should do so "…through the Yearling Fund so that any investment by you would be protected from ORR.…"[49] Numerous ULF Board of Directors interviewees were unaware ULF Board of Directors or Entrepreneurial Group members (who were responsible for making ULF investment decisions) were also individually invested in the Startup Companies.

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[47] See Exhibit 9 – Email from Jason Tomlinson to Kathleen Smith dated September 2013.

[48] COI Forms require reporting when an individual or family member exceeds 35% ownership or serves as a partner with ownership exceeding 5% of an entity that conducts business with ULF.

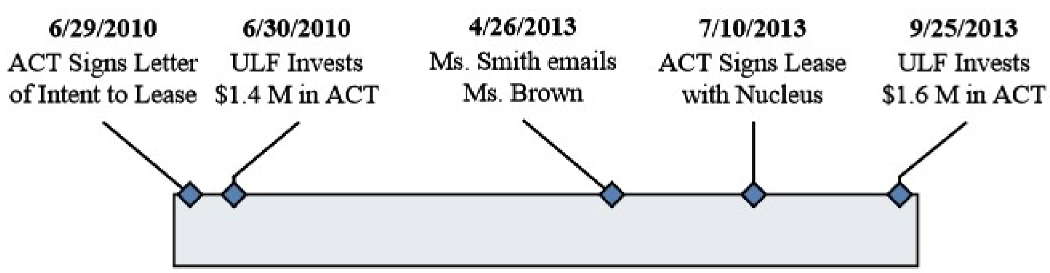
[49] See Exhibit 10 – Email from Kathleen Smith to Ed Glasscock dated December 2013.

2 Recorded Endowment Losses: Startup Company Investments

***Finding 5 –** Documents and interviewees indicate ULF required at least one Startup Company rent office space from a ULF Subsidiary in exchange for ULF's $3.2 million investment in the Startup Company.*

A letter dated June 29, 2010 signed by the ACT President states, "ACT's intention to become a tenant in one of the new Nucleus buildings is also contingent upon UofL Foundation's commitment to become an investor in ACT…."[50] According to an ACT subscription agreement and ULF's internal records, ULF invested $1.4 million in ACT on June 30, 2010.[51] On April 26, 2013, Ms. Smith, ULF Officer, wrote an email to Vickie Yates Brown, Nucleus President, stating, "[ULF is] eager to give [Mr. Riggs] our money, but he needs to be as equally eager to get his lease signed for your building."[52] On July 10, 2013, ACT signed a lease with TNRP and on September 25, 2013, ULF invested an additional $1.6 million in ACT. These events are summarized in the timeline below:

Diagram 12



Interviewees informed A&M the TNRP lease resulted in ACT unnecessarily paying higher rent than its previous lease arrangement. When asked whether ULF's investment in ACT was contingent on ACT leasing space in TNRP, Ms. Smith said it was not.

***Finding 6 –** It appears certain Startup Companies funded research through donations rather than Research Sponsorship Agreements to avoid paying UofL overhead charges.*

A number of the Startup Companies entered into Research Sponsorship Agreements with ULRF, including PGxL and ACT. From July 2009 to September 2015, PGxL and ACT also donated $468 thousand and $65 thousand, respectively.[53] According to interviewees, the Startup Companies made donations to ULF as a method of funding researchers (staff and equipment) in lieu of entering into Research Sponsorship Agreements. Interviewees explained making the donation was less expensive than contracting through the Research

[50] See Exhibit 11 – Letter from Randall Riggs to Kathleen Smith dated June 2010.
[51] A&M did not review the bank statements to confirm the date ULF transferred the cash.
[52] See Exhibit 12 – Email from Kathleen Smith to Vickie Yates Brown dated April 2013.
[53] Startup Company donations only include amounts donated to medical research programs.

Sponsorship Agreements, which included up to an overhead fee up to 50% of the research fees.

ULF Policy and Procedural Changes

ULF stopped directly investing endowment funds in Startup Companies in FY2017 and does not currently plan to invest in Startup Companies in the near future. However, if UofL and ULF identified a startup company investment that was both in ULF's and UofL's best interest, ULF would consider investing unrestricted, non-endowment funds after a complete review of the startup company (including management and structure).

A&M Recommendations

ULF should not require the Startup Companies it invests in (or other entities it directly invests in) to rent office space in ULF owned real estate. Startup Companies in particular have limited revenue and funding, thus unnecessary rent puts the Startup Company in a worse financial position, negatively impacting the overall investment.

ULF and UofL should not accept donations from companies who are making donations to in an attempt to avoid additional costs incurred through Research Sponsorship Agreements.

A&M understands ULF no longer uses the Entrepreneurial Group to make investment recommendations. ULF Board of Directors and UofL Board of Trustee members, particularly those involved in the ULF investment decision making process, should disclose personal investments in companies in which ULF is also directly invested, such as the Startup Companies, to avoid the appearance of a conflict. This rule should apply even if individuals invest through a fund such as the Yearling Group.

3 Excessive Spending

Before taking into consideration ULF's overstatement of certain Endowment Pool assets, a year over year analysis indicates a decline in the Endowment Pool assets from FY2013 through FY2016.[54]

Table 8

	Endowment Pool Asset Value (in thousands)			
	FY2013	FY2014	FY2015	FY2016
Cambridge Advised Endowment Pool Assets	$ 652,540	$ 718,598	$ 668,230	$ 571,390
ULF Managed Endowment Pool Assets	62,730	71,294	76,553	90,282
Endowment Pool Market Value	**$ 715,271**	**$ 789,892**	**$ 744,783**	**$ 661,672**
Market Value Increase/(Decrease)		$ 74,621	$ (45,109)	$ (83,111)
Market Value Percentage Increase/(Decrease)		*10.4%*	*-5.7%*	*-11.2%*

As previously discussed, the Endowment Pool composition and market value changes as (i) ULF receives gifts and invests the funds in Endowment Pool assets, (ii) ULF liquidates Endowment Pool assets for spending, and (iii) ULF records investment returns (or losses) based on the fair value of the remaining Endowment Pool assets at the end of the period.

Table 9

	Endowment Pool (in thousands)		
	FY2014*	FY2015*	FY2016†
Beginning Endowment Pool Market Value	$ 715,271	$ 789,892	$ 744,783
Assets Purchased	49,766	20,459	14,372
Assets Liquidated for Spending	(84,819)	(61,600)	(84,844)
Investment Returns/(Losses)	109,664	(3,968)	(12,639)
Ending Endowment Pool Market Value	**$ 789,882**	**$ 744,783**	**$ 661,672**

***Notes*:**

*FY2014 and FY2015 Current Use Gift Carryover in the Endowment Pool increased and is a component of assets purchased ($28.2 and $1.4 million in FY2014 and FY2015, respectively).

†2016 Current Use Gift Carryover in the Endowment Pool decreased and is a component of assets liquidated for spending ($14.3 million).

While the decrease in Endowment Gift receipts and investment losses were contributing factors, ULF's liquidation of Endowment Pool assets for spending (including the removal

[54] Note, the table only includes assets which are part of the Endowment Pool and does not account for FHITBO or Non-Pool Endowment Assets.

of $14.3 million in Current Use Gift Carryover in FY2016), drove the overall reduction in Endowment Pool market value from FY2013 to FY2016.

As detailed in Sections 3(a) through 3(c), A&M identified the following factors that drove in ULF's substantial liquidation of Endowment Pool assets for spending: (i) ULF's 7.48% spending rate and Spending Policy Allocation calculation methodology, (ii) ULF's spending Endowment Gift Principal of certain Quasi Endowments, and (iii) significant spending in excess of the Spending Policy Allocation.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

Overview

ULF manages the funds allocated for spending each fiscal year by applying an annual spending rate (7.48%) to the Endowment Pool's historical average market value (the "Spending Policy"). ULF's Spending Policy memoranda set forth the specific methodology ULF uses to calculate the funds from the Endowment Pool to be used for spending each fiscal year (the "Spending Policy Allocation") which is comprised of the following components.

Endowment Program Spending Allocation

ULF allocates Endowment Pool funds to UofL departments and programs to spend in accordance with the established Endowment Programs ("Endowment Program Spending Allocation"). ULF calculates the Endowment Program Spending Allocation for each Endowment Program by multiplying the average of the Endowment Pool market value for the preceding three calendar years by 5.5% (with certain adjustments summarized below). For example, to calculate the FY2016 Endowment Program Spending Allocation, ULF averaged the market value for each Endowment Program[55] as of December 31, 2012, 2013, and 2014 and multiplied the average market value by 5.5% (accounting for certain adjustments).

ULF excludes certain Endowment Programs from the Endowment Program Spending Allocation calculation, such as new Endowment Programs invested for less than a full calendar year or have not reached a market value of $10,000. ULF also reduces the 5.5% rate for Underwater Endowments,[56] using a reduced spending rate based on the percentage the Endowment Program is underwater, not allocating spending to Endowment Programs more than 20% underwater.[57]

Advancement Spending Allocation and President Initiative Spending Allocation

ULF also allocates Endowment Pool funds to the UofL Advancement Office for fundraising efforts ("Advancement Spending Allocation") and to the ULF President "to use for high strategic initiatives and program enrichment, including fund-raising activities" ("President Initiative Spending Allocation"). ULF calculates the Advancement Spending Allocation and President Initiative Spending Allocation by

[55] ULF determines the market value attributable to each Endowment Program based on the Endowment Program outstanding shares as of December 31, 2012, 2013, and 2014.

[56] Underwater Endowments represent Permanently Restricted Endowments where the Endowment Gift Principal is greater than the Endowment Program market value, discussed further in Section 5.

[57] Refer to ULF Endowment Spending Policy memoranda effective July 1, 2013 and July 1, 2014 for further details on the items excluded from the Endowment Program Spending calculation for FY2014 through FY2016.

multiplying the average of the Endowment Pool market value for the preceding three calendar years by 1.5% and 0.48%, respectively. When calculating the Advancement Spending Allocation and the President Initiative Spending Allocation, ULF makes the same adjustments summarized above, except for the Underwater Endowment adjustment.[58]

Spending Policy Allocation Carryover
Prior to FY2016, ULF funded the Spending Policy Allocation by transferring funds to UofL the month after the Endowment Program or department expended the funds. In certain fiscal years, Endowment Programs would not spend the entire amount of the Spending Policy Allocation. Because ULF only funded the actual amount spent, the unspent portion of the Spending Policy Allocation would remain in the Endowment Pool ("Spending Policy Allocation Carryover"). However, because ULF had allocated these funds for spend in prior periods, these funds represent funds the Endowment Programs can expend in current or future periods (subject to the same donor restrictions).

In FY2016, ULF funded the Spending Policy Allocation by transferring funds to UofL in advance, transferring 50% of the Spending Policy Allocation at the beginning of the fiscal year and the remaining 50% half-way through the fiscal year. Additionally, in FY2016 ULF transferred a portion of the Spending Policy Allocation Carryover from prior periods based on requests from the department managing the Endowment Programs with a Spending Policy Allocation Carryover balance.

Spending Policy Modifications
Historically, the ULF Board of Directors approved modifications to the Spending Policy calculation methodology. In FY2014, the ULF Board of Directors approved ULF using the average of two of the preceding three years with the highest market value, rather than the average of the preceding three years as prescribed in the Spending Policy. The ULF Board of Directors approved a similar modification for prior periods.

Effective July 1, 2014, ULF modified its Spending Policy requiring Endowment Programs reinvest Spending Policy Allocation Carryover into the Endowment Gift Principal. Beginning in FY2015, ULF reinvested 20% of the outstanding Spending Policy Allocation Carryover.[59] Additionally, because ULF transferred the full Spending Policy Allocation to UofL, it did not create any additional Spending Policy Carryover in FY2016.

[58] ULF also excludes the market value of FHITBO Endowment Programs when calculating the Advancement Spending Allocation and the President Initiative Spending Allocation.
[59] ULF allowed certain exceptions to the Spending Policy Allocation Carryover reinvestment.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding of ULF's Spending Policy through interviews with the following individuals:

- Justin Ruhl — ULF Director of Foundation Accounting Operations
- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Mike Kramer — ULF Director of Investment and Financial Management
- Anne Rademaker — UofL Director of Budget and Financial Planning
- Mike Curtin — ULF Vice President of Finance and Assistant Treasurer
- Kathleen Smith — Chief of Staff for the President and Assistant Secretary

***Procedure 2** – Reviewed ULF Spending Policy Documentation*

- Endowment Manager Reports:
  Investment tracking software reports that provide Endowment Gift Principal, the Endowment Pool market values, and the allocation of the Endowment Pool market value to the individual Endowment Programs based on the outstanding shares at the end of the period.

- Spending Policy Calculations:
  Worksheets prepared by the FFA to calculate the Spending Policy Allocation.

***Procedure 3** – Analyzed and Recalculated ULF's Endowment Spending Allocation*

A&M recalculated ULF's Spending Policy Allocation for FY2014 through FY2016 and compared the methodology used to the Spending Policy and Spending Policy modifications approved by the ULF Board of Directors.

Findings

***Finding 1** – ULF's overstated Endowment Pool market value resulted in ULF spending in excess of 7.48% of the actual Endowment Pool market value.*

Cambridge identified ULF's Spending Policy as an issue and documented its concerns in a November 2012 memorandum addressed to the ULF Board of Directors Finance

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

Committee chairman ("Cambridge 2012 Spending Memo").[60] Cambridge expressed concerns that not only was ULF's stated 7.48% spending rate too high, but also that ULF's Spending Policy calculation methodology resulted in an even higher spending rate.

ULF's inclusion of the following three items in the historical Endowment Pool market value used to calculate the Spending Policy Allocation resulted in ULF spending more than 7.48% of its historical Endowment Pool market value: (i) overstated, non-income generating assets (discussed in Section 1(a) and 1(b), (ii) Spending Policy Allocation Carryover, and (iii) Current Use Gifts.

First, as discussed in Sections 1(a) and 1(b), ULF failed to mark certain ULF Managed Assets at fair value, overstating the Endowment Pool market value. Additionally, because the Spending Policy Allocation Carryover represents funds ULF allocated for spending in prior periods, ULF should not include these funds when calculating its Spending Policy Allocation. Finally, Current Use Gifts do not represent funds the Endowment Programs can use for spending and should be excluded from the Endowment Pool market value used to calculate the Spending Policy Allocation.

In FY2014 to FY2016, ULF's effective spending rate was 6.79% to 7.44%. However, when ULF's historical market value is corrected to exclude these items, ULF's Spending Policy Allocation results in an effective spending rate ranging from 8.21% to 9.26% during the Review Period as shown in the following table:

Table 10

	Adjusted Average Market Value and Effective Spending Rate		
	FY2014	**FY2015**	**FY2016**
ULF Historical Average Market Value*	$ 676,578	$ 698,220	$ 727,733
UHI LOC-JGBCC Grant Exclusion	(26,980)	(45,299)	(56,214)
Current Use Gift Carryover Exclusion	(29,000)	(30,309)	(31,748)
Spending Policy Allocation Carryover Exclusion	(60,396)	(61,945)	(60,297)
Adjusted Average Market Value	**$ 560,203**	**$ 560,667**	**$ 579,474**
Spending Policy Allocation	$ 45,972	$ 51,922	$ 53,140
ULF Effective Spending Rate	6.79%	7.44%	7.30%
Adjusted Effective Spending Rate	8.21%	9.26%	9.17%

***Notes*:**
* ULF historical average market values exclude FHITBO and Endowment Programs not receiving a Spending Policy Allocation.

Because ULF incorrectly included these items in the Endowment Pool market value used to calculate the Spending Policy Allocation its effective spending rate was greater than

[60] See Exhibit 13 – Cambridge 2012 Spending Memo.

the 7.48% spending rate in the Spending Policy authorized by the ULF Board of Directors

Finding 2 – *Despite Cambridge's advice and the ULF Board of Directors Finance Committee directive, ULF failed to exclude the Spending Policy Allocation Carryover from its Spending Policy calculation.*

As early as 2013, Cambridge advised ULF it should not include the Spending Policy Allocation Carryover when calculating the Spending Policy Allocation as reflected in the September 20, 2013 ULF Board of Directors Finance Committee Recommendation to the ULF Board of Directors:

> Cambridge Associates also recommended that the Foundation no longer appropriate the unspent portion of spending policy from previous years in the current spending policy calculation. If spending policy is calculated on the previous balances, the Foundation is allocating the spending policy on top of prior spending policy distributions. The Finance Committee Chair feels this is the most prudent action. This will ensure the Foundation upholds its fiduciary responsibility to its donors.

The December 17, 2013 ULF Board of Directors meeting minutes reflect ULF's intention to exclude the Spending Policy Allocation Carryover from its calculation, stating, "[t]he administration agrees and will administratively implement this change according to existing policy authorization." However, when calculating the FY2014 Spending Policy Allocation ULF made two modifications: (i) exclude the Spending Policy Allocation Carryover from the Endowment Pool market values as of December 31, 2012 and (ii) exclude the year with the lowest Endowment Pool market values, only averaging two years instead of three. When ULF calculated the FY2014 Spending Policy Allocation, it excluded the December 2012 market values, which had the lowest market value of the three years because it was the *only* year ULF excluded the Spending Policy Allocation Carryover.

Because ULF did not exclude the Spending Policy Allocation Carryover from the FY2010 and FY2011 market values ultimately used in the calculation, it allocated more funds for spending than authorized by the ULF Board of Directors. Had ULF excluded the Spending Policy Allocation Carryover as Cambridge and the ULF Board of Directors had advised, FY2014 Spending Policy Allocation would have been $4.1 million less.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

Finding 3 – *ULF's Spending Policy disclosures were inaccurate and misleading.*

Footnote 5 "Endowments" in ULF's 2014 Audited Financial Statements inaccurately states:

> 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.[61] (emphasis added)

As explained above, ULF only eliminated the "past carryover balance" from the December 2012 Endowment Pool market values and then excluded the December 2012 Endowment Pool market values from the average market value calculation. ULF's disclosure is incorrect. As explained above, ULF *did not* eliminate the "past carryover balances" from the market values for the two years actually used in its FY2014 Spending Policy Allocation calculation.

Moreover, Footnote 5 "Endowments" in the FY2014, FY2015, and FY2016, Audited Financial Statements only make reference to the 5.5% Endowment Program Spending Allocation and do not reference the additional 1.5% Advancement Spending Allocation or the 0.48% President Initiative Spending Allocation.

Additionally, in the December 20, 2013 and March 31, 2015 ULF Board of Directors meeting minutes where the ULF Board of Directors approved the FY2014 and FY2016 Spending Policy, respectively. The ULF Board of Director minutes only reflect discussion and approval of the 5.5% Endowment Program Spending Allocation. Several ULF Board of Directors interviewees stated they were unaware the actual Spending Policy rate was 7.48%.[62]

According to the FFA interviewees, ULF did not present the additional 1.5% and 0.48% to the ULF Board of Directors for approval because the Spending Policy only required the 5.5% spending rate be "re-evaluated on an annual basis."

[61] ULF's FY2015 Audited Financial Statements included a similar statement.

[62] A&M noted the ULF Budget (which is approved by the ULF Board of Directors) includes discussion about the additional 1.5% and 0.48% Spending Policy rates.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

Finding 4 – *ULF Officers and certain ULF Board of Directors members were aware the 7.48% Spending Policy would negatively impact the Endowment Pool and failed to make any substantive changes.*

A number of interviewees, including ULF Officers, acknowledge ULF's Spending Policy Allocation rate (7.48%) was high and not sustainable. Additionally, the Cambridge 2012 Spending Memo sent to the ULF Board of Directors Finance Committee chairman identified major concerns:

> Although it is possible that the Foundation may be able to support its current level of spending without reducing the corpus of the endowment, we believe it is incumbent on us as your investment advisors to ***lay bare in the plainest terms that the current level of net draws (i.e., spending minus endowment gifts) is likely unsustainable.*** (emphasis added)[63]

March 2013 emails indicate the ULF Board of Directors Finance Committee chairman requested analyses on the Endowment Pool and spending. An email from Mr. Curtin in response to this request noted the following:

> Going back over the five years exhibited on the spreadsheet Mike Kramer, and Joe Gahlinger before him, have had to liquidate (sell-off) investments each year to meet the negative cash outflow caused by spending….***The selling of securities each year to meet annual spending is what Cambridge Associates refer to as a non-sustainable spending policy at UofL.*** So, the bottom line is that ***market values have been historically lower than what one might expect but this is mostly caused by spending and not endowment performance.*** (emphasis added)[64]

After the Cambridge 2012 Spending Memo, ULF made minor modifications to its Spending Policy, such as limiting spend for Underwater Endowments, however these changes did not have significant impact on reducing ULF's Spending Policy Allocation.

The FFA informed A&M since at least FY2015 it calculated different scenarios, modifying the Spending Policy Allocation in various ways (including a lower spending rate and the exclusion of Spending Policy Allocation Carryover) and presented these scenarios to the ULF President. The FFA explained that the ULF President would review with the scenarios with the "leadership team" select the methodology to be presented to the ULF Board of Directors Finance Committee. According to interviewees, the ULF

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[63] See Exhibit 13.

[64] See Exhibit 14 – Email from Michael Curtin to Burt Deutsch dated March 2013.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

President and the "leadership team" generally selected the scenario with the highest Spending Policy Allocation, commenting that the amount of funds allocated for spending "cannot be less than the prior year." The ULF Board of Directors interviewees did not recall being presented Spending Policy scenarios.

According to interviewees, despite knowing potential harm to the Endowment Pool and against Cambridge's advice, ULF did not reduce its spending rate or change its Spending Policy calculation methodology because "UofL needed the Spending Policy Allocation to offset state budget cuts."

ULF Policy and Procedural Changes

ULF modified its spending rate and calculation methodology for the FY2018 Spending Policy Allocation. The following table identifies ULF Policy and Procedural Changes and compares the rates and methodology used for FY2016 and FY2018:

Table 11

	Spending Policy	
	FY2016	**FY2018**
Endowment Program Spending Allocation	5.50%	4.09%
Advancement Spending Allocation	1.50%	1.25%
Presidential Initiative Spending Allocation	0.48%	0.17%
Spending Policy Allocation	**7.48%**	**5.51%**
Include in Average Market Value:		
Current Use Gift Carryover	Yes	No
Spending Policy Allocation Carryover	Yes	No
Underwater Portion of Endowment Programs	Yes	No
UHI LOC and JGBCC Grant	Yes	No

Additionally, to eliminate Spending Policy Allocation Carryover, going forward ULF will require Endowment Programs to first spend any Spending Policy Allocation Carryover transferred to UofL in FY2016 before it will transfer any additional funds. Unless an exception is approved, ULF will automatically reinvest any Spending Policy Allocation funds not spent in the current period, eliminating Spending Policy Allocation Carryover.

3(a) Excessive Spending: Spending Rate and Spending Policy Calculation

A&M Recommendations

In the future, if ULF calculates various Spending Policy Allocation scenarios it should review these scenarios with the ULF Board of Directors, not just UofL leadership. ULF should ensure it selects the scenario most appropriate to support UofL *and* sustain the Endowment Pool, rather than simply selecting the scenario with largest Spending Policy Allocation.

3(b) Excessive Spending: Endowment Gift Principal Spent

Overview

As previously discussed, at times the ULF Board of Directors creates Quasi Endowments by pooling unspent Current Use Gift funds, endowing the funds and only spending the earnings. The Quasi Endowment may be for a specific purpose/department based on the Current Use Gift original designation or available for general use. One of the undesignated Quasi Endowments ULF created was referred to as the "Evergreen Fund."

At the December 2, 2004 meeting, the ULF Board of Directors Finance Committee passed the following resolution:

> Finance Committee's recommendation that the Board of Directors reauthorize the establishment of a special fund from unrestricted undesignated monies in the Foundation, from which the principal and proceeds would be used by the President to carry out significant projects that a) advance the reputation of the University; b) expedite the completion of strategic initiatives in the Challenge for Excellence; c) partner with individuals and organizations to carry out capital projects of substantial significance to the University, e.g., Shelby Campus infrastructure; d) implement university programs, e.g., Hallmark Scholars, campus transformation, etc. to underscore the preeminence of the university's mission; and e) assist the University in meeting its goals. The fund would be renewable and set at an initial level of $5 million over the next five years.[65]

The November 20, 2007 ULF Board of Directors Finance Committee meeting minutes state, the intent of the "Special President Initiative Fund" established in December 2004 "…was to replenish the Fund routinely. The 5-year time period was to assist with budgeting, but the fund was always to be an 'evergreen'." At the November 2007, meeting the Finance Committee passed the following resolution to "replenish periodically the Fund at the $5 million level":

> Finance Committee's recommendation that the Board of Directors remove the 5-year constraint on the Special Presidential Fund created for the President to carry out significant strategic projects. The reauthorization establishes a renewable "evergreen" fund with a level of $5 million.[66]

[65] The ULF Board of Directors approved the Finance Committee's recommendation at the December 8, 2004 meeting.
[66] The ULF Board of Directors approved the Finance Committee's recommendation at the December 6, 2007 meeting.

3(b) Excessive Spending: Endowment Gift Principal Spent

Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding of the Evergreen Fund through interviews with the following individuals:

- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Mike Kramer — ULF Director of Investment and Financial Management

***Procedure 2** – Reviewed ULF Evergreen Fund Documentation*

- General Endowment Fund Reconciliation:
  ULF prepared an excel spreadsheet tracking the Evergreen Fund uses and market value appreciation from FY2004 through FY2014.

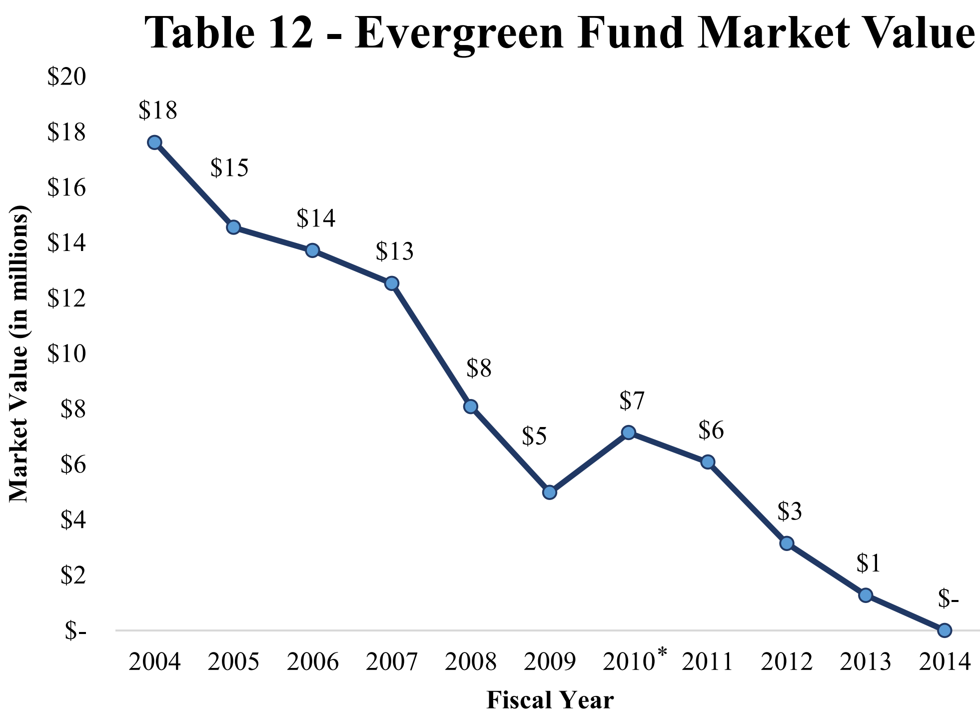
Findings

***Finding 1** – ULF expended the Evergreen Fund (more than $17.6 million in Endowment Gift Principal and earnings) by March 2014.*

ULF's records indicate the Evergreen Fund's market value was $17.6 million as of June 30, 2004 prior to the ULF Board of Directors' authorizing Dr. Ramsey's use of the Evergreen Fund for specific purposes. Three years later, as of June 30, 2007, the Evergreen Fund's market value was only $12.5 million. According to ULF's records, the market value appreciated $4.2 million from FY2004 through FY2007 and UofL spent $9.4 million during the same period (prior to the ULF Board of Directors resolution to remove the 5-year constraint). Thus, ULF had expended more than the $5 million initially authorized by the ULF Board of Directors before the ULF Board of Directors amended its resolution in November 2007 seemingly removing the time and amount constraints.

As of March 31, 2014, ULF had expended the entire Evergreen Fund (the Endowment Gift Principal plus any earnings), spending the final $934 thousand of the Endowment Gift Principal in FY2014. The following chart illustrates ULF's use of the Evergreen Fund (including market appreciation or return of funds).

3(b) Excessive Spending: Endowment Gift Principal Spent



Note:
*In FY2004, ULF used $3.5 million to fund a loan to UofL hospital for construction. In FY2010, it appears UofL hospital repaid the $3.5 million.

Finding 2 *– Certain Evergreen Fund expenditures do not appear to be in accordance with the ULF Board of Directors authorization.*

When the ULF Board of Directors first “reauthorized” Dr. Ramsey’s use of the Evergreen Fund in 2004, it provided the funds should be used for specific projects:

> ...that a) advance the reputation of the University; b) expedite the completion of strategic initiatives in the Challenge for Excellence; c) partner with individuals and organizations to carry out capital projects of substantial significance to the University, e.g., Shelby Campus infrastructure; d) implement university programs, e.g., Hallmark Scholars, campus transformation, etc. to underscore the preeminence of the university’s mission; and e) assist the University in meeting its goals.

However, the worksheet ULF maintained tracking the Evergreen Fund expenditures identifies a number of expenditures that do not appear to be in-line with the purposes set forth by the ULF Board of Directors. Notably, ULF identifies $3.2 million of the expenditures as "Executive Compensation" and another $780 thousand for bowl game or other athletics related expenses.[67]

Finding 3 – *It does not appear the ULF Board of Directors monitored ULF's Evergreen Fund expenditures.*

When the ULF Board of Directors amended the resolution in 2007, there does not appear to be any discussion about the amount of the Evergreen Fund ULF expended as of that date or how the funds had been spent. Rather, it appears the ULF Board of Directors simply modified the resolution to remove the time and amount restrictions without any further discussion as to how the funds were being used.

Although ULF maintained records of how the President spent the Evergreen Fund, it does not appear ULF Officers share this information with the ULF Board of Directors and it does not appear the ULF Board of Directors ever requested an accounting of the Evergreen Fund expenditures. A&M did not identify any follow-up discussion with respect to the Evergreen Fund in the ULF Board of Directors meeting minutes during the Review Period.

A&M Recommendations

Should the ULF Board of Directors elect to authorize the ULF President to use undesignated Quasi Endowments funds in the future, ULF should ensure it spends the funds in accordance with any limitations (including amount and purpose) set forth by the ULF Board of Directors. Additionally, the ULF Board of Directors (or the ULF compliance department) should request follow-up information from ULF as to how and when the funds are expended to ensure it is in accordance with the ULF Board of Directors authorization.

[67] After FY2007 ULF stopped identifying specific expenditures in the General Endowment Fund Reconciliation file. For later years, the General Endowment Fund Reconciliation shows expenditures in $500 thousand increments, consistent with emails A&M reviewed where the Office of the President would request $500 thousand of funding from ULF for various expenditures.

3(c) Excessive Spending: Liquidation of Additional Endowment Pool Assets

Overview

In addition to approving the 5.5% Endowment Program Spending Allocation spending rate,[68] the ULF Board of Directors approves expenditures each fiscal year through the budget (the "ULF Budget"). Historically, the ULF Budget set forth ULF's expected expenditures mainly related to the Spending Policy Allocation (including Spending Policy Allocation Carryover) and an estimate of Current Use Gift receipts. Beginning in FY2015 and FY2016, ULF started to include other funding sources and select ULF operational expenditures in the ULF Budget.

In addition to the ULF Budget, the ULF Board of Directors approves other expenditures throughout the fiscal year as the need arises. For example, the ULF Board of Directors occasionally approved real property acquisitions at or around the time of the acquisition.

ULF Sources of Funding
As shown in the ULF Budget, the Endowment (through the Spending Policy Allocation) and Current Use Gifts fund the majority of ULF's expenditures. Although considered ULF expenditures because funded by ULF, the majority of these funds are in fact transferred to UofL for spending. ULF also uses non-Endowment investment earnings, rental income, TIF proceeds, and third-party financing to fund ULF expenditures. Additionally, at the end of FY2014, ULF borrowed funds from UofL to fund certain expenditures.

UofL to ULF Memorandum of Agreement
On June 27, 2014, UofL and ULF entered into a Memorandum of Agreement whereby UofL agreed to loan ULF $29 million for one year ("UofL to ULF MOA").[69] ULF identified the UofL to ULF MOA as an opportunity for UofL to earn greater returns on its cash reserves and ULF to save money by avoiding incurring third-party financing costs. According to the FFA, it was ULF's intention to renew or enter a new agreement for a number of years. The UofL to ULF MOA identified the following five transactions ULF would fund with the proceeds from the loan:

- Refinance the Cardinal Station debt
- Purchase North Quad property
- Purchase Dulworth property

[68] As previously mentioned, according to FFA interviewees, the ULF Board of Directors did not approve the Advancement Spending Allocation or President Initiative Spending Allocation percentages because the Spending Policy did not require annual approval of these rates.
[69] Although ULF refers to this arrangement as a "receivable agreement," the UofL to ULF MOA meets the accounting definition of a loan.

- Purchase Cardinal Club Golf Course
- Renovate the HSC Medical School[70]

UofL transferred $5.8 million to ULF in FY2014 and the remaining $23.2 million in FY2015. ULF repaid the entire loan balance in FY2015 and did not renew or enter into another agreement with UofL as originally intended.[71]

Specific Procedures Performed

Procedure 1 *– Conducted Interviews*

A&M formed its understanding of ULF's spending and the ULF Budget through interviews with the following individuals:

- Susan Horwath — UofL Interim Chief Financial Officer
- Justin Ruhl — ULF Director of Foundation Accounting Operations
- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Mike Kramer — ULF Director of Investment and Financial Management
- Anne Rademaker — UofL Director of Budget and Financial Planning

Procedure 2 *– Reviewed Investment, Spending, Budget, and Other Related Documentation*

- Investment Rollforwards:
  Worksheets prepared by the FFA reporting all purchases, sales, and investment gains and losses for investments each fiscal year.

- Cash Sweep Reports:
  PeopleSoft generated reports showing new Endowment Gifts and Endowment Gift Principal reinvestment.

- Spending Policy Calculations:
  Worksheets prepared by the FFA to calculate the Spending Policy Allocation.

[70] ULF did not fund the HSC Medical School renovations.
[71] As previously discussed, in FY2016, UofL loaned funds to ULREF under the UofL to ULREF MOA. $22 million of which ULF used to temporarily paydown the UHI LOC, but ultimately returned the funds to UofL in FY2016. In the end, ULREF borrowed more than $9 million to fund certain real property acquisitions.

3(c) Excessive Spending: Liquidation of Additional Endowment Pool Assets

- UofL Carryover Report
  The carryover report identifies the unspent cash balance and carryover receivable balance at the end of the period for Current Use Gift and Endowment Programs.

- ULF Operating Budgets for FY2014 through FY2016:
  ULF Budgets approved by the ULF Board of Directors each fiscal year.

- Endowment Manager Reports:
  Investment tracking software reports that provide Endowment Gift Principal, the Endowment Pool market values, and the allocation of the Endowment Pool market value to the individual Endowment Programs based on the outstanding shares at the end of the period.

Procedure 3 – *Identified and Analyzed Endowment Pool Funds Liquidated for Spending*

A&M used Endowment Gift receipt, investment, and Current Use Gift balance files provided by ULF to track the cash movements associated with the Endowment Pool and identify funds liquidated for spending from the Endowment Pool in FY2014 through FY2016.

Findings

Finding 1 – *ULF liquidated $42 million of Endowment Pool assets to fund unbudgeted and over-budget spending.*

After accounting for the Spending Policy Allocation (including the change in Spending Policy Allocation Carryover) and the Endowment Gift Principal liquidated for spending, A&M estimates ULF liquidated an additional $29.1 million, $7.1 million, and $6.4 million in FY2014, FY2015, and FY2016, respectively, as shown in the following table:

3(c) Excessive Spending: Liquidation of Additional Endowment Pool Assets

Table 13

	Endowment Pool Spending (in thousands)		
	FY2014	**FY2015**	**FY2016**
Endowment Program Spending Allocation	$ 32,920	$ 38,466	$ 39,130
Advancement Spending Allocation	9,887	10,194	10,613
Presidential Initiative Spending Allocation	3,164	3,262	3,396
Spending Policy Allocation	$ 45,972	$ 51,922	$ 53,140
Spending Policy Allocation Carryover (Increase)/Decrease	$ 8,510	$ 36	$ 10,432
Endowment Gift Principal Funds Spent	1,206	2,486	559
Current Use Gift Carryover Decrease	-	-	14,291
Additional Endowment Pool Assets Liquidated	29,131	7,157	6,422
Endowment Pool Assets Liquidated for Spending Total	**$ 84,819**	**$ 61,600**	**$ 84,844**

Because ULF commingled its Endowment Pool funds with Current Use Gifts and ULF's other income, ULF cannot identify the specific source of funds used for a particular transaction. A&M's detailed review of ULF's cash transactions identified the following unbudgeted or over-budget expenditures that contributed to ULF's liquidation of Endowment Pool assets for spending in excess of the Spending Policy Allocation. (A&M discusses a number of these expenditures in further detail in Section 4.)

Table 14

	Unbudgeted/Over-Budget Spending		
	FY2014	**FY2015**	**FY2016**
Real Estate	$ 20,944	$ 2,941	$ 2,009
Deferred Compensation	1,650	-	1,661
Endowment Management Fees	1,612	1,125	1,270
Voluntary Separation Incentive Plan	1,936	436	-
Other Unbudgeted/Over-budget Spending	5,464	5,046	6,308
	$ 31,606	**$ 9,546**	**$ 11,248**

Note the amounts in the Unbudgeted/Over-Budget Spending table are greater than A&M's estimate of additional Endowment Pool assets liquidated for spending because ULF has other sources of income.

A&M included certain transactions listed in the UofL to ULF MOA in its analysis because (i) ULF funded these transactions before UofL transferred funds to ULF and (ii) ULF paid the funds back to UofL in the following year. Thus, the UofL funds transferred in accordance with the UofL to ULF MOA could not be the ultimate source of funding for these transactions. According to interviewees, ULF intended to use the UofL to ULF

MOA to "repay" the Endowment Pool assets liquidated to fund ULF's additional spending.

When accounting for the total funds ULF liquidated from the Endowment Pool, ULF's effective spending rate ranged from 8.82% to 12.54% (based on the reported average Endowment Pool market value before adjusting for ULF's overstated Endowment Pool asset value) from FY2014 through FY2016 as shown in the following table:

Table 15

	Endowment Pool Spending (in thousands)		
	FY2014	FY2015	FY2016
Spending Policy Allocation	$ 45,972	$ 51,922	$ 53,140
Historical Average Market Value*	$ 676,578	$ 698,220	$ 727,733
Spending Policy Allocation Effective Rate	6.79%	7.44%	7.30%
Endowment Pool Assets Liquidated for Spending	$ 84,819	$ 61,600	$ 84,844
Historical Average Market Value	$ 676,578	$ 698,220	$ 727,733
Funds Liquidated for Spending Effective Rate	12.54%	8.82%	11.66%

***Notes*:**
* ULF historical average market values exclude FHITBO and Endowment Programs not receiving a Spending Policy Allocation.

As previously discussed in Section 3(a), ULF's inclusion of certain items in the Endowment Pool market value used to calculate the Spending Policy Allocation resulted in an effective spending rate greater than 7.48% when comparing the Spending Policy Allocation to the actual (or adjusted) Endowment Pool market value. Moreover, when accounting for the additional Endowment Pool assets ULF liquidated for spending *and* correcting for the overstated Endowment Pool market value, ULF's effective spending rate ranged from 10.99% to 15.14% from FY2014 through FY2016 as shown in the following table:

3(c) Excessive Spending: Liquidation of Additional Endowment Pool Assets

Table 16

	Endowment Pool Spending (in thousands)		
	FY2014	FY2015	FY2016
ULF Historical Average Market Value*	$ 676,578	$ 698,220	$ 727,733
UHI LOC-JGBCC Grant Exclusion	(26,980)	(45,299)	(56,214)
Current Use Gift Carryover Exclusion	(29,000)	(30,309)	(31,748)
Spending Policy Allocation Carryover Exclusion	(60,396)	(61,945)	(60,297)
Adjusted Average Market Value	**$ 560,203**	**$ 560,667**	**$ 579,474**
Spending Policy Allocation	$ 45,972	$ 51,922	$ 53,140
Historical Average Market Value	$ 676,578	$ 698,220	$ 727,733
Spending Policy Allocation Effective Rate	6.79%	7.44%	7.30%
Funds Liquidated for Spending	$ 84,819	$ 61,600	$ 84,844
Endowment Pool Assets Liquidated for Spending	$ 560,203	$ 560,667	$ 579,474
Funds Liquidated for Spending Effective Rate	15.14%	10.99%	14.64%

Notes:
* ULF historical average market values exclude FHITBO and Endowment Programs not receiving a Spending Policy Allocation.

***Finding 2** – ULF did not include significant expenditures in the ULF Budget provided to the ULF Board of Directors.*

When A&M compared the actual expenditures recorded in ULF's Statement of Activity to the ULF Budget, A&M noted significant expenditures not included in the ULF Budget.[72] As previously noted, in FY2015 and FY2016, ULF began expanding its budget to include more of its operating expenditures. However, A&M's Budget to Actual Comparison for these periods indicates the ULF Budget for these fiscal years was still not a complete budget.

As identified in A&M's Budget to Actual Comparison, the ULF Budget did not include significant known expenditures such as the fees ULF paid to Cambridge each year. Generally, the FFA acknowledged that it historically did not prepare a complete budget, excluding both additional revenues and cost. The FFA generally recognized that ULF's unbudgeted revenues were less than the unbudgeted expenditures.

The FFA explained they would include costs such as compensation and/or deferred compensation in initial drafts of the ULF Budget. According to interviewees, when the

[72] See Exhibit 15 – ULF Budget to Actual Comparison.

drafts of the ULF Budget went to the Office of the President for review, the comments returned directed them to remove these costs from the ULF Budget.[73] Interviewees were told these costs would be approved separately by the ULF Board of Directors Executive Committee, but they were not aware of those approvals actually being obtained.

Finding 3 – *ULF Officers identified the liquidation of Endowment Pool assets in excess of the Spending Policy Allocation as an issue, but failed to make any substantive changes.*

In September 2013, Mr. Ruhl provided Mr. Tomlinson an analysis quantifying the Endowment Pool assets liquidated for spending in excess of the Spending Policy Allocation or "off the top spending" for FY2013. Mr. Ruhl estimated ULF liquidated an additional $4.9 million in Endowment Pool assets for spending in excess of the Spending Policy Allocation in FY2013. When discussed, Mr. Tomlinson informed A&M he may have shared the results of this analysis with ULF Officers, including the ULF President. He explained any communication with other ULF Officers likely would have been verbal.

Rather than reducing spending after identifying almost $5 million in "off the top spending", ULF Officers increased its spending in FY2014. ULF Officers attempted to avoid liquidating Endowment Pool assets by borrowing money from UofL. However, because ULF repaid the funds borrowed from UofL within one year, the Endowment Pool assets ultimately funded the majority of ULF's unbudgeted and over-budget spending, including the items identified in the UofL to ULF MOA.

Although ULF referred to the UofL to ULF arrangement as a "receivable agreement", the UofL to ULF MOA meets the accounting definition of a loan.[74] In November 2013, when Mr. Tomlinson introduces the concept of the UofL to ULF MOA to Ms. Smith, he identifies the transaction as "…[a] 'loan' of University reserves to the Foundation."[75] According to interviewees and emails, ULF did not want to refer to the arrangement as a "loan" because ULFs debt covenants precluded ULF from taking on any additional debt based on its debt structure and unrestricted asset balance.[76]

[73] Interviewees stated the comments were received from Ms. Smith, but they could not confirm whether or not she was delivering the message for Dr. Ramsey.
[74] Accounting Standards Codification defines a loan as "a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position."
[75] See Exhibit 16 – Email from Jason Tomlinson to Kathleen Smith dated November 2013.
[76] See Exhibit 17 – Email from Jason Tomlinson to Anne Rademaker dated May 2014 – Mr. Tomlinson sends and email to UofL and ULF account staff stating, "…we need to refer to it in a manner that does not cause issue with our bond covenants."

3(c) Excessive Spending: Liquidation of Additional Endowment Pool Assets

In a May 2016 email, Mr. Ruhl sent to Mr. Tomlinson, he identified the unsustainability of the Endowment Pool assets as a result of ULF's "off the top spending", stating:

> ….our spending policy (not including off the top liquidations) is not sustainable long term. If ***off the top is included, its unsustainable in the short term*** – it would only take a couple more fiscal periods until the entire [market value] of the pool is at/below its stated [book value]….our unsustainable spending is not just limited to endowments or ULF. This is a global problem with ULF and ULREF. (emphasis added)[77]

Finding 4 – *ULF Officers failed to inform the ULF Board of Directors of the Endowment Pool assets liquidated for spending in excess of the Spending Policy Allocation.*

According to interviewees and the ULF Board of Directors meeting minutes, the ULF Officers did not provide the ULF Board of Directors a complete budget to actual analysis identifying its actual expenditures as compared to what expenditures approved in the ULF Budget. The ULF Board of Director interviewees indicated they were unaware the ULF Budget presented and approved was not a complete operating budget and did not include significant known operating expenses such as Cambridge management fees.

According to interviewees much of the interim financial information provided to the ULF President and other ULF Officers was verbal and often only the final analysis was provided to the ULF Board of Directors. Mr. Ruhl noted this in his May 2016 email to Mr. Tomlinson, stating:

> Also, since most of our discussions on the topics are verbal, there is little documented history regarding our office's proposed fiscal plan, other than the final topic which is typically massaged to a point which is not reflective of our initial recommendations based on our assessment of the plan's viability. In other words, it's the plan Leadership wants, not what we feel we can deliver upon given our resources.

Finding 5 – *The ULF Board of Directors did not monitor ULF spending to ensure it was in accordance with the ULF Budget.*

It does not appear the ULF Board of Directors ever requested a comparison of ULF's actual expenditures to budgeted expenditures to ensure ULF's spending was in accordance with authorized amounts. Notably, when the ULF Board of Directors

[77] See Exhibit 18 – Email from Justin Ruhl to Jason Tomlinson dated May 2016.

approved the ULF Budget for FY2014 through FY2016 the resolution included the following language:

> That the President be authorized to make adjustments for discretionary programmatic expenditures from budgeted reserves up to the balance available in the reserve.

Several ULF Board of Director interviewees could not provide an explanation as to what this additional language in the resolution meant, but stated they did not think it was intended to allow the ULF President to spend significant amounts in excess of the ULF Budget.

ULF Policy and Procedural Changes

For FY2018, ULF prepared and the ULF Board of Directors approved a complete line-item operating budget that identified all ULF expenditures as could be reasonably estimated. The FFA informed A&M it plans to continue to work on its budgeting process and provide better analyses to the ULF Board of Directors such as a budget to actual comparison.

Additionally, ULF has made a number of changes to its cash management in an effort to curtail additional spending including:

- ULF no longer funds overages in the ULF Spending Allocation, requiring UofL to fund any overages with another source of funds preventing the liquidation of additional Endowment Pool assets.

- ULF no longer commingles Endowment Gift, Current Use Gift, and ULF operating funds, providing better visibility into the source of funds available and used for any one transaction and ensuring Endowment Pool assets are not used to fund other spending.

- ULF has spent and will continue to spend time with UofL, educating all constituents on ULF Budget and spending policies and procedures.

A&M Recommendations

If the ULF Board of Directors approves an expenditure outside of the ULF Budget, it should make sure it understands the source of funding.

4 Unbudgeted or Over-Budget Spending

Because the ULF Budget was not a complete operating budget, there were a number of expenditures not included in the ULF Budget, including capital expenditures which ULF brought to the ULF Board of Directors separately for approval. Additionally, certain expenditures exceeded the budgeted amount. ULF's unbudgeted and/or spending in excess of the ULF Budget along with unbudgeted capital expenditures contributed to ULF's liquidation of Endowment Pool assets in excess of the Spending Policy Allocation. Sections 4(a) through 4(e) discuss select ULF expenditures in further detail.

4(a) Unbudgeted or Over-Budget Spending: Compensation

Overview

As previously noted, historically, UofL and ULF administrative operations were intertwined with no clear distinction between UofL and ULF employees other than an accounting allocation. Although certain employees held ULF Officer and other ULF titles, these employees typically also held UofL titles and had UofL duties. In FY2016, ULF separated its operations from UofL. Through FY2016, ULF compensated its employees in the following manners:

ULF Payroll
Through FY2015, UofL processed both UofL and ULF compensation in its role as paymaster, reporting compensation from both entities on one Form W-2 and using accounting general ledger entries to allocate employee pay between UofL and ULF. In order to separately account for the two sources of compensation, UofL records payroll expense to fund codes assigned to either UofL or ULF. UofL allocated each employee's total compensation based on the employee's roles within UofL and/or ULF. Beginning in FY2016, ULF outsourced its payroll processing to ADP. UofL and ULF now report compensation paid to their employees on separate Forms W-2.

ULF Subsidiaries
The ULF Subsidiaries outsource payroll processing to third-party payroll providers. The ULF Subsidiaries had two types of employees (i) individuals who worked solely for the ULF Subsidiary and received pay only from the ULF Subsidiary during their employment with the ULF Subsidiary[78] (processed by Empower Inc. and Empower HR, LLC[79]) and (ii) UofL/ULF employees who received pay from UofL/ULF and UHI[80] ("UHI Employees"). Although UHI is listed as the employer on the UHI Employees' Form W-2s, the employees may have performed duties for other ULF Subsidiaries managed by UHI.

Deferred Compensation
ULF paid deferred compensation to certain employees in addition to their regular compensation. An overview of deferred compensation and analyses of amounts paid, including the costs incurred by ULF in connection with deferred compensation, are discussed at Section 4(b) of this report.

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[78] These employees may have been UofL and/or ULF employees before or after their employment with the ULF subsidiary.
[79] Forms W-2 issued for wages earned from ULF Subsidiaries include Empower Inc. as employer in calendar years 2010 through 2011 and Empower HR, LLC as employer in calendar years 2012 through 2016.
[80] DDAF processed UHI's payroll during the in calendar years 2012 through 2016.

4(a) Unbudgeted or Over-Budget Spending: Compensation

Specific Procedures Performed

Procedure 1 – *Conducted Interviews*

A&M formed its understanding of ULF Compensation in part through interviews with the following individuals:

• Lee Smith	UofL Interim Chief Operating Officer
• Kathleen Smith	Chief of Staff for the President and Assistant Secretary
• Dave Baugh	UofL Director of Financial Systems
• Jonathan Rexroat	UofL Tax Manager
• Martha Thompson	UofL Payroll Systems Analyst

Procedure 2 – *Reviewed ULF Compensation Documentation*

- Payroll Expense Account General Ledger Data

  Accounting records of gross compensation processed through UofL as paymaster for UofL (and its subsidiaries) and ULF for calendar years 2010 through 2016 ("Payroll GL Data").[81] Fields included in the Payroll GL Data and relied upon in A&M's analyses include:

  - Fund Code: Entity to which the expense was allocated
  - Employee Name / ID: Employee to whom the compensation was paid
  - Year: Calendar year in which the compensation was paid
  - Earn Code: Type of compensation paid (i.e. salary or bonus)

- UofL Tax Reporting

  Employee-level tax data reporting UofL taxable wages and compensation ("UofL W-2 Data").

- ULF and ULF Subsidiary Forms W-2

  Employee-level tax documentation reporting wages and other compensation for ULF, UHI, and ULF Subsidiaries (processed by Empower) ("ULF Forms W-2").[82]

[81] A&M specifically requested calendar year data for comparison to Forms W-2, which are prepared on a calendar year basis.
[82] ULF began reporting taxable wages separate from UofL beginning in 2016 with the outsourcing of ULF compensation to ADP. Taxable wages for all entities other than ULF and UHI were included on Forms W-2 issued by Empower Inc. or Empower HR, LLC, an outside payroll processor.

- Employment Agreements and Letters
  Formal documentation establishing employment with UofL and ULF, as well as any changes to existing employment terms.

- Additional Pay Forms
  Forms used by UofL and ULF to document and approve compensation beyond regular salary ("Additional Pay"). Examples of Additional Pay provided by ULF include bonuses, compensation for additional duties performed, and car allowances.

***Procedure 3** – Collected and Aggregated ULF Compensation Data*

In order to quantify total compensation paid to ULF employees, A&M aggregated data from several sources. Data relied on from each of these sources is identified and described below.

Payroll GL Data and Other UofL Compensation
A&M obtained the Payroll GL Data from UofL and aggregated it with Box 12 and Box 14 compensation extracted from the UofL W-2 Data ("Other UofL Compensation").[83]

A&M compared the Payroll GL Data to the Federal wages reported in the UofL W-2 Data. A&M identified reconciling differences related to employees included in the payroll general ledger data to whom UofL did not issue a Form W-2, such as employees with foreign national status.

ULF Subsidiary Tax Reporting
In order to account for compensation not administered by UofL, A&M electronically summarized Medicare wages reported in Box 5 of each of the ULF Forms W-2 and aggregated these wages with the Payroll GL Data and Other UofL Compensation for further analysis.[84]

[83] Compensation reported in Box 12 and labeled with a C code represents premiums paid for group-term life insurance valued in excess of $50,000 paid for by the employer. These amounts are taxable but not recorded to the payroll general ledger expense accounts A&M analyzed. Box 14 reports other amounts not otherwise reflected in the payroll expense general ledger accounts A&M analyzed. Examples include the taxable value of benefits including annuities purchased by UofL for the benefit of an employee, club memberships and other non-cash, taxable awards.
[84] A&M identified Medicare wages as most appropriate for analysis because these wages are subject to fewer deductions and limitations than Federal and Social Security wages and are not adjusted as a result of an employee performing services in different locations, as are state and local wages.

4(a) Unbudgeted or Over-Budget Spending: Compensation

Procedure 4 *– Analyzed ULF Compensation Data*

A&M analyzed compensation for the following employee types: (i) ULF Officers, (ii) other employees who received deferred compensation, and (iii) other employees who received UHI compensation. Exhibit 19 – ULF Compensation Analysis identifies the employees who A&M included in its analysis. For these employees, A&M reviewed additional available compensation documentation, including but not limited to, Additional Pay forms, employee agreements, and evaluation forms (as available).

Findings

Finding 1 – *ULF used Endowment Pool funds (the UHI Line of Credit) to pay select ULF and UofL employees $1.7 million in additional compensation paid through UHI.*

As previously explained in Section 1(a), ULF loaned Endowment Pool funds to UHI which then loaned the funds to certain ULF Subsidiaries through the UHI LOC. The ULF Subsidiaries used a portion of the UHI LOC proceeds to fund operating expenses, including salaries. During calendar years 2010 through 2016, UHI paid $1.7 million in payroll to UHI Employees, individuals also paid by UofL/ULF.[85] Although ULF only attributes $262 thousand of the UHI LOC to UHI, ULF allocated UHI's costs to other ULF Subsidiaries also funded by the UHI LOC.[86]

Finding 2 – *ULF paid compensation in excess of budgeted amounts approved by the ULF Board of Directors.*

ULF did not include ULF administrative salaries in the ULF Budgets prepared prior to FY2015.[87] Additionally, although certain ULF Subsidiaries may have provided budget information, A&M understands this data was not included in the ULF Budget presented to the ULF Board of Directors, thereby excluding any ULF Subsidiary compensation from the ULF Budget during the Review Periods.

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[85] This does not include salaries paid to ULF Subsidiary employees paid through UofL and/or Empower, which were also funded in part by the UHI LOC. This only includes employees paid by UofL/ULF and UHI.

[86] While certain ULF Subsidiaries had other sources of income, this income was not sufficient to cover the ULF Subsidiary's operating costs. Therefore, the UHI LOC funded at least a portion of the salaries paid by the ULF Subsidiaries.

[87] ULF started preparing the ULF Budget in FY2015 and included ULF compensation. In prior periods, the ULF Budget and Financial Planning Office prepared the ULF Budget.

4(a) Unbudgeted or Over-Budget Spending: Compensation

Finding 3 – *The additional compensation paid through UHI was not transparent.*

ULF did not maintain complete records for UHI Employees and was unable to produce UHI contracts/employment agreements for a number of the UHI Employees. Emails among ULF Officers indicate a desire to limit ULF and UofL employees' awareness of the UHI Employees' compensation. Additionally, during its email review, A&M noted numerous conversations regarding ULF excluding certain information from its responses to open records requests. In September 2013, Ms. Smith sent an email to David Saffer, Stites & Harbison Member, discussing potential open records requests stating, "[w]e need to protect UHI and Minerva" and asking, "…how we can move our LLCs into something more obscure that would be difficult to find through ORRs."[88] Subsequently in February 2015, Ms. Smith sent an email to Mr. Saffer asking whether ULF could exclude UHI compensation from its response to an open records request regarding compensation.[89]

ULF Policy and Procedural Changes

ULF included an estimate of all known expenditures in the FY2018 ULF Budget, including salaries.

Beginning July 1 2016, ULF started using ADP to administer and process payroll for ULF employees, separate from UofL compensation. This allows ULF to clearly define ULF employees and easily identify ULF compensation.

ULF no longer separately compensates employees from UHI. Compensation related to work performed for UHI is now included with ULF compensation processed by ADP. ULF instituted new policies and procedures to ensure its open records requests are complete and accurate.

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[88] See Exhibit 20 – Email from Kathleen Smith to David Saffer dated September 2013.
[89] See Exhibit 21 – Email from Kathleen Smith to David Saffer dated February 2015.

4(b) Unbudgeted or Over-Budget Spending: Deferred Compensation

Overview

Effective January 1, 2005, ULF established The University of Louisville Inc. Key Employee Deferred Compensation Plan (the "Plan") for the purpose of retaining certain highly compensated "key" employees through deferred vesting of compensation from ULF. ULF established the Plan to replace its Private Option Plan, which was no longer effective in providing tax deferred compensation as a result of tax code changes. Effective July 16, 2014, ULF amended the Plan through the DCPA, LLC Deferred Compensation for Key Employees of the University of Louisville Foundation (the "Amended Plan"). ULF enrolled employees in the Plan through participation agreements, which defined contributions, earnings, and tax gross-ups offered to the Plan participants (the "Participation Agreements"). During the Review Period, ULF issued and amended individual employee's Participation Agreements. [90]

ULF engaged DDAF to provide services to administer the Plan, including tracking Plan activity, preparing relevant tax reporting, and processing distributions, among other responsibilities. A&M understands DDAF began performing these services in 2010.[91]

Contributions
The contributions set forth in the Participation Agreements varied by participant and included one-time grants and recurring grants. Additionally, select employees rolled their UofL/ULF bonuses into their deferred compensation balance. The Participation Agreements set forth the vesting dates for the contributions. As of the defined vesting date, Plan activity was non-forfeitable and taxable.

Earnings
The Plan provided for the balance of each Participant's Account to "be adjusted for notional interest at the Deemed Interest Rate" as of the last day of each month. The Plan originally defined the Deemed Interest Rate as "the previous 36 quarter moving average of the net return of the total assets of the foundation" used to calculate the "notional earnings." The Amended Plan redefined the Deemed Interest Rate as a "36 month

[90] Tom Jurich, Vice President and Director of Athletics, was admitted to the Plan through a Special Participation Agreement, effective December 20, 2007. Mr. Jurich's participation in the Plan is funded by ULAA and is reported on his UofL Form W-2, resulting in no financial obligation to ULF. A&M reviewed Mr. Jurich's deferred compensation, but excluded the amounts from its analysis as the cost is to be funded by ULAA, not ULF.

[91] ULF and DDAF personnel were not able to produce an engagement letter formally documenting the terms of the legal relationship between ULF and DDAF, as it pertained to the Plan. In the absence of an engagement letter, ULF and DDAF were of the understanding DDAF's role administering the Plan began in 2010. In the course of its review, A&M identified schedules and email communications evidencing DDAF's involvement since Plan inception, but DDAF did not begin preparing Forms W-2 reporting Plan wages until 2012.

moving average of the net return on the Total ULF Pool [not total assets]" used to calculate the "notional earnings."

Tax Gross-Up
Certain Participation Agreements also provided for tax gross-ups on contributions and related earnings. According to a January 20, 2017, memo from George B. Sanders, Jr., Stites & Harbison, the ULF Board of Directors Executive Committee decided all grants of deferred compensation would be grossed-up regardless of the absence of tax gross-up language in any individual Participant Agreements, effective January 22. 2008.[92] Beginning in FY2016, ULF discontinued the tax gross-up of earnings on vested contributions, but continued to gross-up vested contributions and earnings on unvested contributions.

Specific Procedures Performed

Procedure 1 – *Conducted Interviews*

A&M formed its understanding of ULF Deferred Compensation in part through interviews with the following individuals:

• Jonathan Rexroat	UofL Tax Manager
• Martha Thompson	UofL Payroll Systems Analyst
• Kathleen Smith	Chief of Staff for the President and Assistant Secretary
• Mike Harbold	DDAF Associate Director of Tax Services
• Robert Montgomery	DDAF Retired Partner
• David Saffer	Stites & Harbison Member
• George B. Sanders, Jr.	Stites & Harbison Counsel

Procedure 2 – *Reviewed Deferred Compensation Documentation*

- Plan Participation Agreements
  Formal documentation establishing enrollment in the Plan, as well as any subsequent adjustment to Plan participation.

- Employment Agreements and Letters
  Formal documentation establishing employment with UofL and ULF, as well as changes to existing employment terms.

[92] A&M was unable to locate Executive Committee meeting minutes evidencing this change.

- Forms W-2 and Forms 1099-INT
  Employee tax documentation reporting taxable deferred compensation wages and earnings ("Deferred Compensation Tax Reporting"). Deferred Compensation Tax Reporting specifically includes Forms W-2 issued by Minerva for calendar years 2012 through 2014, Forms W-2 issued by DCPA for calendar years 2015 and 2016, and Forms 1099-INT issued by DCPA for calendar year 2016.

- Non-Qualified Deferred Compensation Plan Requests for Withdrawal
  Completed forms submitted by Plan participants requesting cash payment of vested Plan account balances.

- Notional interest deferred comp rollforward carryforward ("DDAF Rollforward"):
  DDAF schedules tracking contributions, monthly earnings, and vesting dates for each Plan participant.

- Quarterly "Deferred comp payroll" files for calendar years 2013-2016 ("DDAF W-2 Files"):
  Quarterly schedules presenting deferred compensation, both gross and net of applicable taxes. DDAF's presentation was inconsistent, with only certain periods differentiating between contributions, earnings and tax gross-up. A&M was unable to reconcile amounts reported as gross deferred compensation in the DDAF W-2 Files to wages reported on deferred compensation Forms W-2 in certain periods.

- DCPA, LLC "Life-to-Date Summary of Plan Activity", February 28, 2017:
  DDAF's record of life-to-date vested contributions, earnings, distributions, estimated taxes paid, estimated taxes due and estimated cost of the Plan as of February 28, 2017, for each Plan participant.

Procedure 3 – *Reviewed and Analyzed ULF Employee Deferred Compensation Data*

A&M analyzed contributions, earnings, and tax gross-ups (collectively, "Total Plan Cost") for each Plan participant from enrollment through calendar year 2016.[93] For calendar years 2012 through 2016, A&M relied on the Forms W-2 cumulative wages and income reported on each Participant's annual Deferred Compensation Tax Reporting to determine Total Plan Cost for each employee. Because ULF could not provide Forms W-2 prior to calendar year 2012 A&M calculated Total Plan Cost based on vesting dates in the Participation Agreements and data provided by DDAF. A&M then separately

[93] A&M's analyses of Total Plan Cost do not consider the employer portion of income taxes due on deferred compensation.

calculated each component of Total Plan Cost using a combination of documents provided by ULF and DDAF.

Findings

Finding 1 – *ULF administered a deferred compensation Plan costing ULF more than $21.8 million, including contributions and earnings of $12.5 million paid to nine employees.*

A&M's analyses of deferred compensation identified total vested contributions under the Plan through 2016 of $8.4 million and total vested earnings under the Plan through 2016 of $4.1 million.[94] Additionally, A&M determined the benefit of the tax gross-up offered to Plan participants cost ULF $9.2 million through 2016, resulting in Total Plan Cost of $21.8 million through June 30, 2016. A&M identified a number of benefits offered inconsistently to Plan participants or which required certain judgement by those responsible for administering the Plan. These benefits, which contributed the Total Plan Cost, are described below.

Contributions
ULF allowed certain Plan participants to contribute compensation awarded as UofL and ULF bonuses ("Deferred Bonuses") and salary increases ("Deferred Salary") to their deferred compensation accounts. In all cases, these contributions immediately (i) vested, (ii) were eligible for tax gross-up, and (iii) began to accrue earnings. Therefore, ULF allowed employees the opportunity to receive a tax gross-up on their UofL and ULF bonus and salary, permitting them to withdraw the balance immediately without any penalty. A&M identified $695 thousand of Deferred Bonuses and $583 thousand of Deferred Salaries vested through calendar year 2016.

ULF awarded contributions with an effective date prior to the Participation Agreement date ("Predated Contributions"). In these instances, the Plan participant's balance as of the date of his or her agreement reflected earnings accrued at the Deemed Interest Rate since the effective date of the contribution. Like all earnings accrued on Plan balances through Fiscal Year 2015, earnings accrued on Predated Contributions were subject to tax gross-up, further amplifying their cost to ULF. A&M identified Predated Contributions totaling $1.5 million.

Tax Gross-Ups
The manner in which ULF calculated the tax gross-up on deferred compensation was very favorable to the Plan participants. Review of earlier Participation Agreements show

[94] See Exhibit 22 – Deferred Compensation Analysis.

the Plan called for ULF to pay the Participant "the amount…equal to the federal and state income tax obligation of Employee attributable to such deferred compensation amounts credited to Employee under the Plan."[95] More recent Participation Agreements include adjusted tax gross-up language, which required ULF to pay the Participant, "the amount…equal to the federal, state, and local income tax obligation of Employee attributable to such deferred compensation amounts credited to Employee under the Plan."[96] DDAF's interpretation of this language has been to credit the amount of all contributions and earnings to the participant's account net of all taxes due, including federal, state, and local taxes, since Plan inception.[97] A&M determined the tax gross-up portion of the Total Plan Cost for of all Plan participants was $9.2 million through calendar year 2016.

Alternatively, had ULF offered a tax-gross up equal to the participant's federal, state, and local tax liability on just his or her vested contributions and earnings as the language in the early Participation Agreements reads, the tax gross-up would have been $5.9 million, resulting in savings to ULF of approximately $3.3 million.[98]

Earnings

The Deemed Interest Rate, as defined in the Plan, allowed for the smoothing of returns on ULF's total assets across a nine year period. This smoothing allowed earnings to accrue at favorable rates despite poor market performance during certain periods. The Amended Plan adjusted the calculation of the Deemed Interest Rate to include just the last three years returns and eliminated the return on certain assets that sat outside the "ULF Pool" of assets. Interviewees indicated the former ULF Board of Directors Finance Committee chairman Burt Deutsch had suggested the original calculation of the Deemed Interest Rate and had likely misspoken when he suggested 36 quarters rather than 36 months.

[95] Per University of Louisville Foundation, Inc. Key Employee Deferred Compensation Plan Participation Agreement entered into as of June 5, 2008 between ULF and Kathleen M. Smith.

[96] Per Amended and Restated Participation Agreement entered into as of December 2, 2014, between DCPA, LLC and Kathleen M. Smith.

[97] DDAF stated it inherited the calculation methodology from UofL. However, neither DDAF nor any UofL/ULF employees A&M spoke with could identify the UofL/ULF employee who first interpreted the Participation Agreements and started calculating the tax-gross up in this manner.

[98] A&M conservatively estimated the revised cost of the tax gross-up by multiplying $12.6 million of total vested deferred compensation for all Plan participants by 46.8%, the effective tax rate used by DDAF to calculate the tax liability for Louisville-resident Plan participants in the highest level tax brackets. Because certain Plan participants had lower effective tax rates due to a combination of income levels and non-resident status, the revised cost of the tax gross up would likely be even lower than the conservative estimate A&M calculated if calculated for each individual Plan participant.

None of the interviewees were aware of why ULF did not identify and amend this purported mistake before July 2014.[99]

A&M noted the timing in which ULF passed the Plan Amendment to shorten the period included in the calculation resulted in ULF excluding poor returns during 2008 and 2009 which would have otherwise continued to be included in the calculation.

Vesting
Review of Plan Participation Agreements show inconsistency in ULF's determination of vesting schedules, with original contributions vesting over a period of time and more recent contributions vesting immediately or within the year of contribution. Upon vesting, ULF allowed balances to remain within the Plan, continuing to accrue interest at the Deemed Interest Rate at the cost of ULF. Through fiscal year 2015, ULF provided a tax gross-up on earnings accrued on vested deferred compensation balances.

Finding 2 – *It appears ULF paid deferred compensation not approved by the ULF Board of Directors.*

FFA interviewees indicated the FFA had included deferred compensation in early versions of the ULF Budget, but when it sent the ULF Budget to the Office of the President for comment, they were told to remove the estimated deferred compensation expenses from the ULF Budget. The reasoning provided for removing these costs from the ULF Budget was that the expenditures would be taken to the ULF Board of Directors Executive Committee separately for approval. However, the FFA did not know if this ever occurred and A&M could not identify an instance where the ULF Board of Directors separately approved the amounts to be paid for deferred compensation in fiscal year. While the message was communicated through Ms. Smith, the FFA interviewees were not certain if this was a comment from Dr. James Ramsey, former UofL President, or Ms. Smith.

ULF's exclusion of the deferred compensation amounts from the ULF Budget resulted in the ULF finance staff scrambling for funds to pay the deferred compensation taxes and withdrawals. As a result, ULF had to identify other available funds and/or liquidate Endowment Pool assets to fund these expenditures. For example, in FY2015 ULF received a $5 million one-time construction-term lease payment which correlated to an agreement ULF entered with the Louisville/Jefferson County Metro Government where ULF agreed to pay up to $5 million in improvements to a city-owned park. However,

[99] Interviewees could not identify who directed the Deemed Interest Rate to be based on the "ULF Pool" rather than total assets. The ULF Pool represents Cambridge Advised Endowment Pool Assets while total assets (as reported on the Cambridge Investment Report) also includes ULF Managed Endowment Pool Assets and Non-Endowment Pool Assets.

because ULF needed funding for deferred compensation withdrawals and taxes it transferred $3.5 million of the $5 million received to DCPA (the ULF Subsidiary that manages the deferred compensation).

Additionally, in FY2017 when most of the Plan participants withdrew their deferred compensation balances, ULF had to use a Current Use Gift from Owsley Frazier to fund the withdrawals. An email from Jason Tomlinson, ULF Officer, indicates Dr. Ramsey and former ULF Board of Directors chairman Dr. Hughes intended to use Mr. Frazier's gift for to fund the deferred compensation. However, it is not clear whether the true intent of the donor was to use the gift in this manner.

Finding 3 – *ULF's deferred compensation was not transparent.*

UofL and ULF compensation records are subject to Open Records Request from any person.[100] Despite the statutes in place, emails reviewed by A&M show Ms. Smith expressed an interest in concealing Deferred Compensation from Open Records Requests as early as 2008. A February 18, 2008, email from Ms. Smith to Kennedy Helm, Stites & Harbison, reads, "how can we keep these participation agreements from being subject to ORR. I am certain that Dr. Ramsey does not want any of these to end up in the hands of the C-J."[101]

A&M identified similar concerns leading up to the Plan's transition from Minerva to DCPA. These concerns were displayed in an email chain between Ms. Smith and Mr. Saffer beginning March 30, 2014, in which Mr. Saffer writes, "I picked DCPA, LLC for deferred compensation program administrator." Ms. Smith responds on March 31, 2014, stating, "I follow. Needs to be letters. Thought taking the vowels out of Minerva could work too. I'm fine with either but needs to be difficult to figure out for media."[102]

Further, A&M identified communications in which Ms. Smith made reference to specific efforts to conceal benefits offered to ULF employees under the Plan. In an email exchange between Ms. Smith and Shirley Willihnganz on February 1, 2012, Ms. Willihnganz states, "I am worried that I'm now being overcompensated…I don't remember anything being in the contract about additional 50,000 annual contributions from 2010, 11 and 12." In Ms. Smith's response she writes, "you make a good point. Ben Sanders (Stites benefits guru) is doing the analysis and the retirement contracts for

[100] Kentucky Revised Statute 61.870 *et seq.*

[101] See Exhibit 23 – Email from Kathleen Smith to Kennedy Helm dated February 2008. When asked about this email, Ms. Smith explained the comment was made because she was admitted to the Plan at a time when salary increases and bonuses were not being offered to UofL faculty and staff.

[102] See Exhibit 24 – Email from Kathleen Smith to David Saffer dated March 2014.

the ULF. We are deliberately ambiguous because ambiguity is in the employee's favor."[103]

***Finding 4 –** The ULF Board of Directors failed to oversee the deferred compensation Plan.*

The ULF By-laws require, "[c]ompensation due from the Corporation to any person shall be fixed by Resolution of the Board of Directors." Despite this language, in or around 2014, amendments to certain Participation Agreements describe "additional amounts may be credited to the Account from time to time pursuant to the authority of the Foundation's President."

Numerous ULF Board of Directors interviewed stated they were not aware of or did not recall discussion of deferred compensation, other than that awarded to Dr. Ramsey, until it was reported by the media. Those ULF Board of Directors interviewees who were familiar with the Plan described not realizing how "generous" the plan was or the extent of the cost incurred by ULF in providing Plan benefits. These recollections were consistent with A&M's review of ULF Board of Directors meeting minutes, which reflected infrequent discussions of the Plan and inconsistent approvals of Plan activity.

***Finding 5 –** ULF failed to maintain appropriate deferred compensation Plan records.*

A&M consistently encountered issues in obtaining documentation supporting Plan participation in the course of its review of the Plan. These issues included ULF's inability to produce signed versions of certain Plan Participation Agreements. A&M noted DDAF was administering the Plan using the same, unsigned Plan Participation Agreements provided to A&M for review. Additionally, it appears certain changes in Plan participation were communicated to DDAF directly by Ms. Smith without formal documentation supporting the changes.

A&M also identified certain Amended Plan Participation Agreements within which descriptions of past contributions were inconsistent with Plan activity. Specifically, certain contributions described in previous versions of Participation Agreements and reflected as having been made in Plan records were excluded from amended versions of Plan Participation Agreements. ULF, DDAF and ULF's outside counsel interviewees were unable to explain why these contributions were excluded from the amended participation agreements

Issues identified with Plan records extended to those maintained by DDAF. DDAF's calculation of earnings on Plan balances was inconsistently prepared in the DDAF

[103] See Exhibit 25 – Email from Kathleen Smith to Shirley Willihnganz dated February 2012.

Rollforward. Further, DDAF was unable to provide accurate records reconciling Plan activity to amounts reported on certain participants' Forms W-2 reporting Plan wages. As was previously noted, neither ULF nor DDAF were able to provide an engagement letter defining the legal relationship between ULF and DDAF, as it pertained to the Plan. Accordingly, DDAF's role in administering the Plan and the terms under which DDAF was to administer the Plan were never formally defined. In the absence of a formally defined role, DDAF did not provide ULF with regular Plan reporting and changes to Plan participation were effectuated by DDAF without formal record of approval.

ULF Policy and Procedural Changes

The ULF Board of Directors voted to terminate the Plan, for all participants, effective March 31, 2017 (the "Termination Date"), having determined the Plan was no longer necessary in retaining key employees nor was it in the best interest of ULF. No further contributions will be made to the Plan as of the Termination Date, nor will any earnings accrue on unpaid balances beyond the Termination Date. ULF will honor and pay any vested balances between March 31, 2018 and March 31, 2019.

ULF will include the remaining estimated amounts owed under the Plan (including earnings and tax gross-ups) as a result of the termination in its budget.

A&M Recommendations

In communicating the termination of the Plan to its participants, ULF cited IRS regulations disallowing ULF from establishing a new deferred compensation plan for at least three years. If ULF should elect to implement a new deferred compensation plan, it should develop controls to ensure the plan is designed and administered in line with ULF's and the ULF Board of Directors' intentions. These controls should specifically address required levels of approval for participation terms including contributions, earnings, and vesting periods, as well as oversight to ensure agreed upon terms are appropriately applied.

4(c) Unbudgeted or Over-Budget Spending: Real Estate

ULF holds a number of real property assets it acquired through purchases, development, and/or gifts for various purposes. Based on conversations with FFA and Stites & Harbison, A&M categorized each real property asset based on whether or not it generated revenue and the properties current use. Section 4(d) separately addresses properties purchased by ULF and used by ULAA.

Revenue Generating Properties

ULF earns revenue on certain real property assets from rental (ground and tenant) income paid either by UofL tenants or third-party tenants. UofL occupied properties include:

Table 17

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
Humana Gym	601 Presidents Blvd	Unknown	Gift	Belknap
Dismas House	425 W Lee St	12/20/2013	Purcahse	None

Third-party occupied properties include:

Table 18

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
Med Center III	201 E Jefferson St	10/1/2008	Purchase	HSC
iHub	204 S Floyd St	10/1/2008	Purchase	HSC
Haymarket Surface Parking Lots	301 E Jefferson	10/1/2008	Purchase	HSC
Icebreakers	252 E Market St	7/30/2014	Purchase	HSC
K&I Lumber	1600,1601 S Floyd St; 227, 311 E Lee St; 306, 308, 314 E Gaulbert Ave	6/18/2015	Purchase	Belknap
Stansbury Park	2302 S 3rd St	7/20/2015	Purchase	Belknap
Bed, Bath & Beyond	996 Breckenridge Ln	12/29/2015	Gift	None

UofL and third-party tenant occupied properties include:

4(c) Unbudgeted or Over-Budget Spending: Real Estate

Table 19

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
University Kidney Center	615 S Preston St; 408, 410, 414 E Chestnut St	8/4/1992	Purchase	HSC
Cardinal Station	215 Central Avenue	11/13/2007	Purchase	Belknap
Tafel / North Quad Properties	1820, 1900, 1940-1980 Arthur St; 333 E Brandeis St	3/26/2014	Purchase	Belknap

Developed properties include:

Table 20

Development	Address	TIF District
Campus One	600 N Hurstbourne Pkwy	Shelbyhurst
Campus Two	700 N Hurstbourne Pkwy	Shelbyhurst
Campus Three	500 N Hurstbourne Pkwy	Shelbyhurst
JD Nichols Garage	220 S Preston St	HSC
TNRP Building	300 E Market St	HSC

Non-Revenue Generating Properties

Certain real estate owned by ULF does not generate revenue. ULF either received these properties as gifts or purchased the property in support of UofL initiatives. A number of these properties are currently used by UofL under arrangements not requiring lease payments to ULF, including:

Table 21

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
Amelia Place	2515 Longest Ave	Unknown	Gift	None
Keeney House	132 E Gray St	Unknown	Gift	None
Carriage House	1259 Ray Ave	4/15/2007	Purchase	None
Doyle House	1470 S 4th St	12/15/2010	Gift	None
Southern Kitchens	1601 S Brook St	11/22/2011	Partial Gift	Belknap

The following properties do not generate revenue and have no current use. (While several of these properties had an intended use when purchased, the intended use has not materialized):

4(c) Unbudgeted or Over-Budget Spending: Real Estate

Table 22

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
KYT-Louisville	2601 S 3rd St	5/21/2008	Purchase	Belknap
Phoenix Place	417, 507 S Shelby St; 808 E Madison St; 817 E Muhammad Ali Blvd; 724 S Muhammad Ali Blvd	1/31/2009	Gift	None
Lake Avenue Condo	3 Lake Ave	6/3/2009	Gift	None
Steedly Estate	8016 Shepherdsville Rd	2011	Gift	None
Chevron Plant	430 W Cardinal Blvd; 1710 S 5th St	2/29/2012	Purchase	Belknap
Solae	2417, 2439, 2441 S Floyd St	12/11/2013	Purchase	Belknap
Dulworth Property	204, 206 E Market St	1/31/2014	Purchase	HSC
Sapulpa	Unknown - Sapulpa, OK	4/23/2014	Gift	None
Eastern Parkway Apartments	302, 328 Eastern Parkway	10/20/2015	Purchase	Belknap
Banta	320 Eastern Pkwy	1/6/2017	Purchase	Belknap

Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding of Real Estate Transactions in part through interviews with the following individuals:

- Justin Ruhl — ULF Director of Foundation Accounting Operations
- Jason Tomlinson — ULF Chief Financial Officer and Assistant Treasurer
- Kathleen Smith — Chief of Staff for the President and Assistant Secretary
- George Chapman — Integra Realty Resources Managing Director
- David Saffer — Stites & Harbison Member
- Lawrence Droege — Stites & Harbison Member

***Procedure 2** – Review Property Documentation*

A&M identified and developed its understanding of ULF's real property assets in part through review of the following documents.

- Appraisal Documentation
  Third-party appraisals and other documentation supporting value assigned to properties as of initial acquisition and subsequent transfer to ULREF.

- Purchase / Gift Documentation
  Purchase and gift agreements and closing statements reviewed in order to identify transaction terms and relevant parties.

Procedure 3 – *Compared Purchase Prices to Contemporaneous Third-Party Appraisals*

A&M identified a number of ULF properties for further review due to a combination of the timing of the transaction, its purchase price and the terms under which it is was acquired. Where a third-party appraisal was performed in advance of the property acquisition, A&M performed the following procedures:

- Reviewed the third-party appraisal prepared in connection with the subject property acquisition,

- Assessed the appropriateness of the appraisal methods and techniques used in the appraisal and considered the reasonableness of the analysis and conclusions noted by the appraiser, and

- Compared ULF purchase price to market value determined by third-party appraiser.

Where ULF was unable to produce a third-party appraisal prepared in advance of the purchase of a significant ULF property, A&M performed independent analyses of the potential probable sale price of the property as of its acquisition date for comparison to the ULF purchase price.[104]

A&M developed its estimate of the potential probable sale price using the approaches described below, as determined by the type of property and the nature of its use:

- The sales comparison approach involved identifying applicable sales of land with similar characteristics as the subject land and/or improved parcels.

[104] A&M did not act in the capacity of an appraiser in its determination of the potential probable sale price estimates. Potential probable sale price estimates do not represent a valuation.

- The cost approach (in the absence of comparable sales) involved estimating replacement cost of subject building improvements and adjusting for depreciation based on the age of the improvements.[105]

- The income capitalization approach involved analysis of potential income and expense exposure for an income producing property.

Procedure 4 *– Performed Market Rent Analyzes of ULF Developed Properties*

A&M performed market rent analyses to determine probable market rents for ULF the TNRP development and the ShelbyHurst ground leases. Analyses included review of applicable leases for comparison to market surveys in order to assess the appropriateness of the contract rents in place at the ULF development.

Findings

Finding 1 – *ULF acquired eight properties at an aggregate $10.3 million above appraised value.*[106]

A&M's analyses identified eight properties ULF acquired since 2008 at prices above the appraised value, paying $10.3 million above the fair value based on appraisals ULF obtained at or around the acquisition date.[107] The two properties with the most significant variances are discussed below.[108]

KYT-Louisville
ULF paid $19.5 million for the KYT-Louisville on May 21, 2008, $5.9 million above the $13.6 million market value indicated in the appraisal ULF obtained effective October 7, 2007. Other documents indicate a second appraisal valued the property at $15.0 million. However, ULF and the third-party appraiser could not provide the appraisal supporting this value, so A&M could not review the assumptions made in the second appraisal. A&M reviewed and agreed with the assumptions and the $13.6 million value conclusion provided in the October 2007 appraisal.

[105] Probably sale price estimates developed using the cost approach were determined using guidelines provided by Marshall Valuation Service.
[106] A&M excluded properties where the difference between the purchase price and appraisal was less than $50 thousand.
[107] A&M also notes ULF acquired one property for $550 thousand below market value, accounting for the difference as a gift. ULF did not provide an appraisal for this property.
[108] See Exhibit 26 – ULF Real Estate Schedule, for other properties for which ULF paid above appraised value.

4(c) Unbudgeted or Over-Budget Spending: Real Estate

Interviewees indicated ULF knowingly paid above market value for this property, describing this as a "strategic" property acquisition that was to be developed as part of the proposed Belknap Research Engineering and Applied Sciences Research Park. According to interviewees, the seller (Kentucky Trailer, a specialty trailer manufacturer) was considering relocating its business out of state. Interviewees informed A&M that the mayor of Louisville purportedly asked UofL to purchase the property at an above market price in exchange for the Belknap TIF and certain other properties that the city would allegedly give to UofL (or allow UofL to use).[109] IULF and the city entered into the Belknap TIF agreement, but the other items purportedly promised did not come to fruition.

Tafel / North Quad Properties
ULF obtained an appraisal as of June 11, 2013 that provided two values, a $3.6 million fee simple value conclusion and a $5.5 million leased fee value conclusion for the Tafel/North Quad Properties. In a letter dated February 6, 2014 (a little over a month before the purchase) the appraiser sent Mr. Tomlinson, ULF Officer, a letter stating "…the price of $3,600,000 is appropriate and the $5,500,000 price is above market value."[110] On March 26, 2014, ULF paid $5.5 million for the Tafel/North Quad Properties, $1.9 million above the $3.6 million revised market value indicated by the appraiser. ULF interviewees described the transaction as a "strategic" purchase.

Finding 2 – *ULF paid $30.1 million for non-revenue generating properties.*

As of June 30, 2016, ULF and ULREF held 15 non-revenue generating properties which ULF paid at least $30.1 million to acquire. Of these properties, $28.6 million was spent to acquire non-revenue generating properties with no current use and $1.5 million was spent to acquire properties used by UofL for no consideration. These costs do not take into consideration the additional property maintenance and development costs ULF funded. As noted in A&M's Budget to Actual comparison, ULF expended $6.6 million in unbudgeted real estate costs during the Review Period. Exhibit 26 identifies ULF's non-revenue generating properties.

[109] Interviewees described the purchase price as including amounts paid to facilitate the move of Kentucky Trailer's operations to a new location, though purchase documentation reviewed by A&M does not separately identify these amounts.
[110] See Exhibit 27 – Tafel Appraisal dated February 2014.

4(c) Unbudgeted or Over-Budget Spending: Real Estate

Finding 3 – *ULF entered into below market tenant and ground leases for developed properties.*

ShelbyHurst Campus

ULF entered into separate ground leases with Campus One, Campus Two and Campus Three for the development of commercial office space on ShelbyHurst Campus land ULF subleases from UofL. As previously noted, ULDC is a 51% partner in Campus One and Campus Two, ULREF is a 51% partner in Campus Three. NTS is the other partner with 49% ownership.

A&M identified the ground lease rates for the Campus Two and Campus Three properties as below the low end of market rent estimates as of June 30, 2016,[111] potentially costing ULF $49 thousand to $141 thousand per year in lost ground lease rent.[112] Additionally, A&M noted the Campus One, Campus Two and Campus Three ground leases set forth a fixed rent basis with no increase in rent for the duration of the 65 year lease term. Typically, a lease of this term would include rent steps either annually or in fixed rent periods to coincide with growth of the Consumer Price Index.

A&M also noted the term of the Campus One, Campus Two and Campus Three ground leases did not begin until completion of development on the property, thus ULF does not receive ground lease rent for use of the land during property development.

TNRP Building

A&M noted Atria Management Company ("Atria") leased 89,773 square feet of space at TNRP Building at a cost of $15.25 per square foot ("PSF"),[113] as of June 30, 2016. A&M estimated market rents of $17 PSF to $21.50 PSF and weighted-average market rents of $18.70 PSF to $19.70 PSF for comparable properties. Considering Atria's lease accounts for 51 percent of space leased in the Atria Building as of June 30, 2016, it appears appropriate Atria would receive favorable lease terms, though not below market lease rates. By not negotiating lease rates in-line with the low end of estimated market lease rates, ULF is foregoing $157 thousand of Atria lease revenue annually.

A&M noted the remaining leased spaced at the TNRP Building was leased at or above market rates, though all but 3,148 square feet of that space was rent paid by subsidiaries of UofL and ACT.

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[111] Campus One ground lease rents are within the range of the market rent estimates, though toward the lower end of the range.

[112] A&M notes ULF (through its subsidiary ULDC) owns 51% of the joint ventures paying the ground lease, and thus the joint venture distributions ULDC would potentially be lower.

[113] The $15.25 PSF lease rate negotiated with Atria does not reflect rent abatement incentives offered to Atria, which resulted in further lost lease revenues for ULF.

Finding 4 – *It appears ULF Officers failed to provide the ULF Board of Directors sufficient information related to the real property acquisitions.*

A&M noted limited discussion around proposed ULF property acquisitions reflected in the ULF Board of Directors meeting minutes where the ULF Board of Directors approves the acquisition. It is unclear whether the approving members of the ULF Board of Directors were familiar with all relevant conditions to the approved property acquisitions, including funding source, intended use of the property, or the appraised market value of the property.

ULF Board of Director interviewees commented that real estate transactions were too far along such that they felt they were unable to vote against property acquisitions. For example, the ULF Board of Directors did not approve the $5.5 million acquisition of Tafel/North Quad Properties until April 18, 2014, several weeks after the transaction closed. Additionally, the minutes to this ULF Board of Directors meeting include no reference to discussions of the revised appraisal indicating the approved purchase price was above market value.

Additionally, when ULF acquires property that does not require third-party financing, the ULF Board of Directors meeting minutes generally do not identify a source of funding or discussions around the source of funding. As noted in Section 3(c) it appears ULF ultimately liquidated Endowment Pool assets to fund the purchase of the Tafel/North Quad property.[114] However, it does not appear the ULF Officers and ULF Board of Directors discussed how ULF would fund this acquisition.

ULF Policy and Procedural Changes

ULF and ULREF are working to determine the highest and best use of ULF's real estate holdings, including potential disposition. A&M understands Doyle House was sold in May 2017 and Carriage House and Lake Avenue Condo are under contract to be sold in 2017.

ULF is considering consolidating space leased by UofL into fewer properties in order to free properties currently used by UofL for third-party tenant occupancy.

[114] As previously discussed, although ULF identifies the UofL to ULF MOA as the source of funding for this transaction, ULF transferred funds to the seller prior to UofL transferring any funds to ULF. Moreover, ULF repaid all funds borrowed under the UofL to ULF MOA in FY2015, thus the UofL to ULF MOA cannot be the ultimate source of funding for this acquisition.

4(c) Unbudgeted or Over-Budget Spending: Real Estate

A&M Recommendations

ULF should enact a policy to ensure all future real estate transactions are formally documented and fully vetted, including review and approval of the ULF and/or ULREF Boards of Directors. This policy should include requirements over centralized retention of transaction documentation. When the ULF Board of Directors approves unbudgeted expenditures such as real property acquisitions, it should ensure it understands the source of funds ULF proposes using to purchase the property.

4(d) Unbudgeted or Over-Budget Spending: ULAA Transactions

Overview

ULAA's primary purpose is promoting intercollegiate athletic activities for UofL and is responsible for managing the financial resources needed to support UofL's intercollegiate athletic programs. The main sources of ULAA's funding are philanthropy and the sale of tickets to UofL sporting events, particularly football and men's basketball. In their respective roles supporting UofL, ULF and ULAA have historically interacted in a variety of ways.

ULAA Sells Tickets to ULF
The Office of the President purchases UofL football and men's basketball season tickets from ULAA for fundraising purposes, giving the majority of tickets to donors and alumni. The Office of the President also sold a small portion of the tickets it held.

The total cost of football and men's basketball season tickets is comprised of three separate components. The first component is donations made in advance of the ticket purchase, which, in aggregate, determine the location of the seat the donor is eligible to purchase ("Up-front Donations"). After the purchaser makes the required level of Up-front Donations, the purchaser also makes an additional donation defined by ULAA in advance of each season ("Annual Donations" and, collectively with Up-front Donations, "Ticket Donations"). Lastly, the purchaser pays the face value of the ticket ("Face Value").

ULF Purchases and Develops Property for ULAA Use
ULF owns a number of real property assets purchased for and/or currently used by ULAA (the "ULAA Properties"). The ULAA Properties include land used for the development of athletic facilities, land developed as parking lots supporting athletic facilities, and the University of Louisville Golf Club ("ULGC"). In certain situations, ULF funded the development of these properties and others owned by UofL for ULAA's use. The following table identifies the ULAA Properties:

Table 23

Transaction Title	Address(es)	Transaction Date	Transaction Type	TIF District
Trager Stadium	317, 337 Warnock Ave	7/26/1989	Purchase	Belknap
Brook St Connector	2901 S 2nd St; 2831 S 3rd St	12/31/2008	Purchase	Belknap
Old World Pasta	2521 S Floyd St; 339 Byrne Avenue	9/23/2009	Purchase	Belknap
Baseball Parking	2827 S 2nd St	6/15/2010	Purchase	Belknap
Residential Baseball	2919 S 3rd St	10/11/2010	Purchase	Belknap
Clark / Baseball Parking 1	2815, 2819, 2821, 2823 S 2nd St; 2817 S 3rd St	10/15/2010	Purchase	Belknap
Equipment Depot	2901, 2921 S Floyd St	11/14/2011	Purchase	Belknap
Martco - Byrne Properties	331, 333, 337 Byrne Ave	12/15/2011	Purchase	Belknap
Frost Home	2901 S 3rd St	5/16/2013	Purchase	Belknap
Iowa Avenue	232 Iowa Avenue	5/30/2013	Purchase	Belknap
ULGC	401 Champions Way	12/13/2013	Partial Gift	None

ULF Funds Compensation Paid to ULAA Employees

ULF funded compensation paid to certain current and former ULAA employees under a number of different arrangements. ULF funded compensation paid to Tom Jurich under an employment agreement with ULF, entered into October 1, 2007.[115] ULF funds compensation paid to Denny Crum, Former UofL Men's Basketball Head Coach, under a Retirement and Employment Agreement with UofL and ULAA, entered into August 30, 2001. Additionally, ULF funded the salary of Mark Jurich, an employee of the Office of the President listed in the ULAA Staff Directory as Senior Associate Athletic Director for Development.

ULF Manages ULAA's Investments

In December 1995 ULF entered into an agency agreement with ULAA whereby ULF agreed to manage funds on behalf of ULAA, creating Endowment Programs and investing the funds in the Endowment Pool assets (FHITFO).

[115] Tom Jurich's ULF contracts states, "Mr. Jurich agrees to assist with [ULF]'s and [ULAA]'s fundraising activities, to assist with donor relations, and to perform such other duties related to fundraising and donor relations as are otherwise determined by the Board of Directors of [ULF] in consultation with the President of [ULF]." In an interview with A&M, Tom Jurich described receiving his ULF contract upon promotion to Vice President and indicated the contract provided additional compensation for added responsibilities in this expanded role.

4(d) Unbudgeted or Over-Budget Spending: ULAA Transactions

Specific Procedures Performed

***Procedure 1** – Conducted Interviews*

A&M formed its understanding of the exchanges between ULAA and ULF described herein in part through interviews with the following individuals:

• Justin Ruhl	ULF Director of Foundation Accounting Operations
• Jason Tomlinson	ULF Chief Financial Officer and Assistant Treasurer
• Kathleen Smith	Chief of Staff for the President and Assistant Secretary
• Kevin Miller	ULAA Executive Senior Associate Athletic Director
• Tom Jurich	ULAA Vice President and Director of Athletics
• Jeff Spoekler	ULAA Business Office Manager
• Joseph Elliott	Office of the President Coordinator of Special Events
• George Chapman	Integra Realty Resources Managing Director
• David Saffer	Stites & Harbison Member
• Lawrence Droege	Stites & Harbison Member

***Procedure 2** – Identified the ULAA Properties and Gathered Summary Information*

A&M's comprehensive review of ULF's real estate holdings, described in detail in Section 4(c) identified a number of properties purchased by ULF for the ULAA's use. Exhibit 28 – ULAA Properties Schedule, reflects information gathered specific to the acquisition.

***Procedure 3** – Compared Purchase Prices to Contemporaneous Third-Party Appraisals*

A&M identified a number of the ULAA Properties for further review due to a combination of the timing of the transaction, its purchase price, and the related agreement between ULAA and ULF. Where a third-party appraisal was performed in advance of the property acquisition, A&M performed the following procedures:

- Reviewed the third-party appraisal prepared in connection with the subject property acquisition,

- Assessed the appropriateness of the appraisal methods and techniques used in the appraisal and considered the reasonableness of the analysis and conclusions noted by the appraiser, and

- Compared ULF purchase price to market value determined by third-party appraiser.

Where ULF was unable to produce a third-party appraisal prepared at or around the time ULF acquired the property, A&M performed independent analyses to estimate the potential probable sale price of the property as of its acquisition date for comparison to the ULF purchase price.[116]

A&M developed its estimate of the potential probable sale price using the approaches described below, as determined by the type of property and the nature of its use:

- The sales comparison approach involved identifying applicable sales of land with similar characteristics as the subject land and/or improved parcels.

- The cost approach (in the absence of comparable sales) involved estimating replacement cost of subject building improvements and adjusting for depreciation based on the age of the improvements.[117]

***Procedure 4** – Analyzed Annual ULF Ticket Expenditures*

A&M obtained data from ULAA detailing all football and men's basketball tickets sold to the Office of the President FY2010 through FY2016. A&M recalculated the Annual Donation and Face Value ULF paid to ULAA for the Office of the President's football and men's basketball season tickets and compared it to ULF's cash disbursements in FY2014 through FY2016.

Findings

***Finding 1** – ULF expended monies on behalf of ULAA and in return ULAA transferred cash to UofL and waived required donations on season tickets purchased by the Office of the President.*

A&M identified two documented arrangements between ULF and ULAA in which the two parties exchanged assets: (i) a January 29, 2010, Memorandum of Understanding

[116] A&M did not act in the capacity of an appraiser in its determination of the potential probable sale price estimates. Potential probable sale price estimates do not represent a valuation.
[117] Probable sale price estimates developed using the cost approach were determined using guidelines provided by Marshall Valuation Service.

from Mr. Miller to Ms. Smith ("ULAA MOU")[118] and (ii) an April 19, 2012, letter from Ms. Smith to Mr. Miller ("ULAA Letter").[119]

ULAA MOU

Under the terms of the ULAA MOU, ULAA agreed to sell the Office of the President 78 football and 510 men's basketball season tickets (including suites) for a period of ten years. These tickets required Up-front Donations of $6.4 million and Annual Donations of $1.2 million,[120] for total Ticket Donations of $18.6 million over the proposed ten year period. In lieu of ULF transferring cash to ULAA, the two parties agreed to the following exchange:

- ULF agreed to finance four special projects outside of ULAA's annual operating budget with an estimated total cost of $8.5 million. [121]

- ULAA agreed to waive $6.4 million of Up-front Donations and an additional $3.2 million of Annual Donations over ten years.

In summary, ULF assumed $8.5 million of expenses on behalf of ULAA in lieu of $9.6 million of cash Ticket Donations required to purchase football and men's basketball season tickets for the Office of the President.

ULAA Letter

The ULAA Letter presented eight conditions to a proposed agreement between ULF and ULAA. A&M understands the ULAA Letter was part of negotiations resulting in ULAA's use of Martco-Byrne Properties and Equipment Depot[122] in exchange for $2 million ULAA transferred to UofL to fund UofL faculty and staff salary increases.[123]

Currently, ULF and ULAA disagree which entity owns the ULAA properties, specifically those included in the ULAA MOU and ULAA Letter. Ms. Smith stated her expectation was ULAA would lease the properties from ULF in the future, as purportedly evidenced

[118] The ULAA MOU includes approvals from Dr. Ramsey and Tom Jurich, both dated January 29, 2010. See Exhibit 29 – ULAA MOU.

[119] Although the ULAA Letter is addressed to "Kevin" and does not include a last name, Kevin Miller confirmed he was the recipient of the ULAA Letter. See Exhibit 30 – ULAA Letter.

[120] See Exhibit 31 – Ticket Donations Analysis

[121] Projects financed under the ULAA MOU include the acquisition of Old World Pasta, development of other properties by ULF for the use of ULAA, and funding compensation related to the "reorganization" of the UofL Football staff.

[122] ULF purchased the Martco-Byrne Properties and Equipment Depot in December 2011, almost four months prior to the ULAA Letter. It is unclear whether ULF had some other intended use for these properties before entering into the agreement proposed in the ULAA Letter.

[123] According to Ms. Smith and Mr. Miller, a number of the other items discussed in the ULAA Letter did not come to fruition or were negotiated separately, such as the golf course discussed later in this report.

by the fact that the ULAA Properties remained on ULF's balance sheet. Although, Ms. Smith acknowledged this was not something to which ULAA had agreed. Mr. Miller, stated he considered these properties ULAA assets as ULAA had paid ULF for the properties through the waived Ticket Donations and $2.0 million cash transfer to UofL.

Finding 2 – *ULF spent $15.1 million on ULAA's behalf for which it only received $11.6 million in consideration.*

ULF paid $8.8 million for 10 ULAA Properties and agreed to finance $2.3 million for the development of properties used by ULAA, as defined by the terms of the ULAA MOU and ULAA Letter.[124] Additionally, under the terms of the ULAA MOU, ULF funded $4 million paid to Steven Kragthorpe, Former UofL Football Head Coach, as part of the reorganization of the UofL football coaching staff. Exhibit 32 – ULAA Compensation Analysis further details ULF payments to Mr. Kragthorpe on behalf of ULAA.

In exchange for these ULF expenditures, ULAA transferred $2 million to UofL, as was previously presented, and accepted the financing of projects under the ULAA memo in lieu of cash Ticket Donations of $9.6 million required for football and men's basketball season tickets purchased by the Office of the President.

When asked, Ms. Smith and Mr. Miller both stated they were not aware of any other arrangements like the ULAA Letter and ULA MOU between ULAA and ULF.

Finding 3 – *ULF funded $4.9 million in compensation paid to certain ULAA employees.*

ULF funded the compensation of three current or former ULAA employees totaling $4.9 million during calendar years 2010 through 2016. As was previously presented, this compensation was paid under a number of different arrangements. ULF funded $1.8 million of compensation paid to Tom Jurich in accordance with his employment agreement with ULF and $2.3 million to Mr. Crum in accordance with his Retirement and Employment Agreement with UofL and ULAA. The remaining $791 thousand of ULF funded compensation was paid to Mark Jurich. Despite UofL's payroll processing system listing Mark Jurich's department as the Office of the President, the ULAA Staff Directory includes him as a Senior Associate Athletic Director for Development who joined the ULAA staff in 2008.[125]

[124] Development costs identified as estimated cost of projects listed in the ULAA MOU above the $2.2 million purchase price of Old World Pasta and the $4 million paid for the reorganization of the football staff.
[125] See Exhibit 32 – ULAA Compensation Analysis.

Additionally, ULF held ULAA funds designated to fund deferred compensation owed to Tom Jurich and Richard Pitino, UofL Men's Basketball Head Coach. ULF invested these funds in the Endowment Pool as FHITFO. As previously explained, FHITFO Endowment Programs market value increase and decrease in value proportionate to the Endowment Pool market value. In accordance with the agreements, deferred compensation contributions awarded to Tom Jurich and Mr. Pitino accrued earnings at the Deemed Interest Rate (the 36 month or 36 quarter average market return depending on the period). However, the Deemed Interest Rate returns were greater than the ULAA FHITFO returns (which are impacted by gifts and spending in addition to the market returns). As a result, the deferred compensation owed to Tom Jurich and Mr. Pitino was greater than the market value of the funds reserved for payment.

Finding 4 – *In addition to the $9.6 million of Ticket Donations ULF satisfied by expending funds on behalf of ULAA, ULF paid ULAA more than $800 thousand annually for football and men's basketball season tickets.*

The ULAA MOU allowed ULF to fund $8.5 million of expenses on ULAA's behalf in lieu of paying $9.6 million of Ticket Donations. In addition to the Ticket Donations satisfied under the terms of the ULAA MOU, ULF paid Annual Donations and Face Value of approximately $800 thousand per year from FY2010 through FY2016 for the Office of the President's ongoing use of the football and men's basketball season tickets. ULF also funded tickets to bowl games and other ULAA events for the use of the Office of the President, resulting in total annual disbursements to ULAA up to $1 million (inclusive of the $800 thousand noted above). It appears the Office of the President used the President Initiative Spending Allocation to fund this expenditure. UofL recorded the tickets to an accounting program that was often over budget, contributing to the liquidation of Endowment Pool assets in excess of the Spending Policy Allocation.

Interviewees indicated the Office of the President sold a limited number of the football and men's basketball season tickets. However, the Office of the President could not provide a detailed log indicating to whom the tickets were sold and/or documentation evidencing cash receipts for the tickets sold.[126]

Finding 5 – *ULF liquidated Endowment funds to purchase ULGC.*

ULGC is an 18-hole golf course, clubhouse, driving range, bar, restaurant, and pro shop located in Simpsonville, Kentucky. CCG (ULF Subsidiary) purchased ULGC, which previously operated as the Cardinal Club, for $3.8 million in December 2013. According to interviewees, the owner was contemplating a sale and ULAA was concerned UofL

[126] The Office of the President provided invoices and RSVP lists, but could not provide documentation evidencing payments received related to these documents.

Men's and Women's Golf teams would not have a course for use if the property sold. Interviewees also described this as being of particular importance because UofL had been recently approved to join the ACC athletic conference in 2014.

To fund the purchase, CCG and ULF entered into a Promissory Note on December 13, 2013, whereby ULF loaned CCG $4 million due to be repaid in full July 1, 2043 (the "CCG Note"). The CCG Note bears interest at 2 percent per annum and requires CCG to make principal payments to ULF beginning July 1, 2019. ULGC appointed ULAA as manager of ULGC under the terms of a Management Agreement, dated December 3, 2013. In its role as manager, ULGC authorized ULAA to fully and completely supervise and direct the operations of ULGC, and any matters associated with or related to its operations.

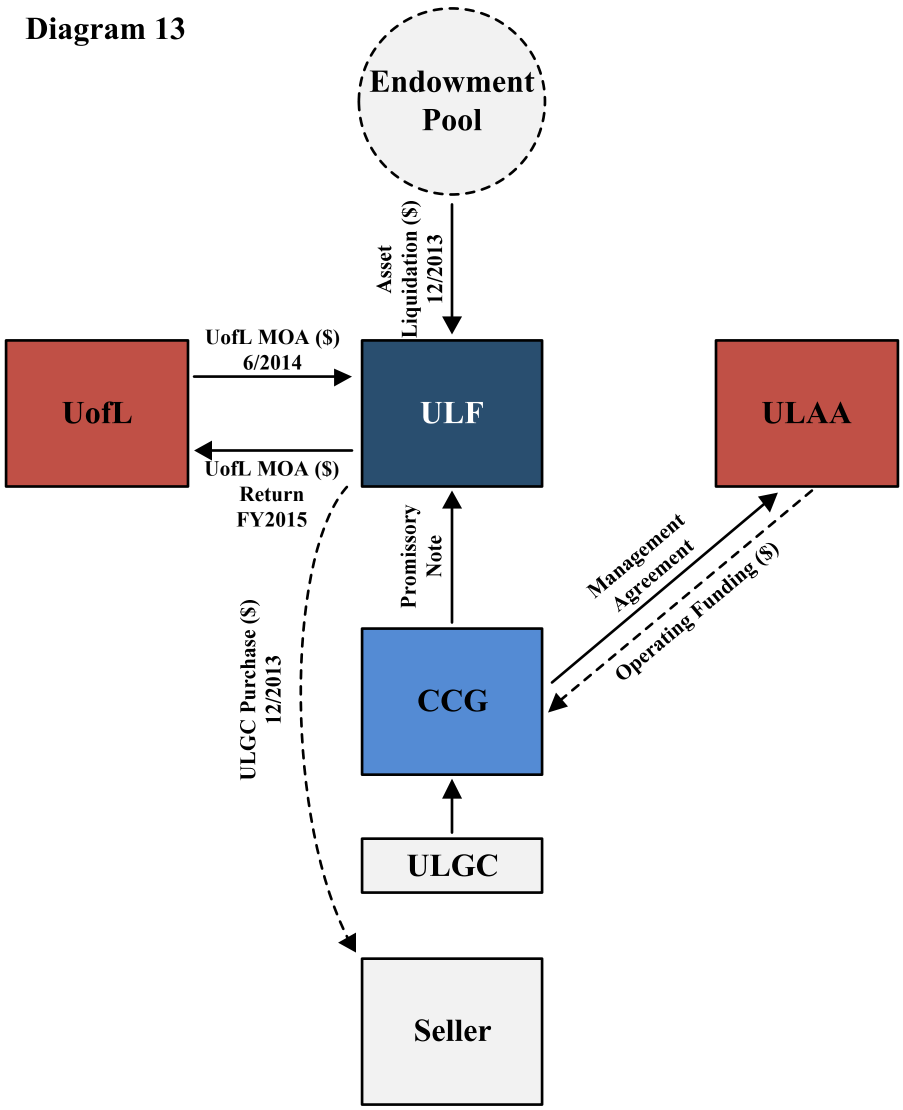
ULAA funds ULGC operating costs, reimbursing CCG each month for any operating deficit. According to ULAA, this will include funding the CCG Note payments beginning in July 2019. ULAA is not a party to the CCG Note, though Section 1.(o) of the Management Agreement states, "ULAA shall pay or cause [CCG] to pay from funds in the Accounts all payments due on the [CCG Note]."

Although the UofL to ULF MOA indicated it was to fund the ULGC acquisition, ULF funded the ULGC purchase in December 2013, six months prior to the first funds transfer under the UofL to ULF MOA in June 2014. Thus, ULF was required to use another source of funds when it purchased ULGC in December 2013. Moreover, ULF repaid the entire $29 million dollars outstanding under the UofL to ULF MOA in FY2015, and therefore, the UofL to ULF MOA was not the ultimate source of funding for the ULGC acquisition. The ULGC purchase contributed to ULF liquidating Endowment Pool assets in excess of the Spending Policy Allocation in FY 2014. Mr. Tomlinson notes in a November 2013 email to Ms. Smith and Mr. Saffer that a "plus" of loaning the funds under the UofL to ULF MOA would be that, "I do not have to liquidate $3.7M from the endowment pools…",[127] indicating the other source of funding for the ULGC acquisition was the Endowment Pool.

The following diagram depicts the ULGC purchase (including relevant funds flow and agreements).

[127] See Exhibit 13

Diagram 13



As noted throughout this report, ULF cannot easily identify the source of funds for a specific transaction because it commingled all funds in one operating account. However, it is clear ULF liquidated Endowment Pool assets in excess of the Spending Policy Allocation to fund unbudgeted and over-budget expenditures, such as ULGC.

A&M noted ULAA/ULF considered purchasing this golf course as early as 2011. Emails show ULF contemplated loaning Endowment monies to fund the golf course purchase and analyzed the appropriate interest rate for such a loan. In an August 2011 email, ULF finance staff discussed an appropriate interest rate of more than 10% given the expected returns of the Endowment Pool.[128] In the end, it appears although ULF ultimately loaned Endowment Pool monies (in whole or in part) to purchase ULGC, ULF (i) did not include the loan as an Endowment Pool asset (as it had with it other intercompany loans to ULF Subsidiaries) and (ii) charged an interest rate well below the returns it would have expected to earn had the funds remained in the Endowment Pool.

***Finding 6** – The ULF and ULAA transactions were not transparent.*

ULF Interviewees were generally not aware of the ULAA MOU and ULAA Letter until after ULF placed Ms. Smith on administrative leave. Specific references to efforts being made to conceal this relationship were identified in documents reviewed by A&M. Specifically, the ULAA Letter states, "[t]his note is between you, Tom, Dr. Ramsey, and me. I do not want it on the e-mail where we have very little control. Please destroy your earlier note to me. I have done same here." Further, in a document titled "Accomplishment Evaluation For Kathleen Smith 2010-2011", Ms. Smith describes her role in improving football and men's basketball tickets available for the Office of the President's use and ends the [paragraph] with "[w]e did well with no negative publicity."[129]

***Finding 7** – It does not appear the ULF Board of Directors was informed of and/or authorized all of the ULAA property acquisitions.*

A&M noted limited discussion around proposed ULAA Property acquisitions reflected in the ULF Board of Directors meeting minutes where ULAA Property acquisitions were approved. It is unclear whether the approving members of the ULF Board of Directors were familiar with all relevant conditions to the approved property acquisitions, including funding source, intended use of the property, or the appraised market value of the property. For example, the ULF Board of Directors meeting minutes approving the purchase of Martco-Byrne Properties makes no reference to the appraisal received by ULF showing the purchase price to have been in excess of appraised value. Further, these meeting minutes make no reference to the intended ULAA use of the properties.

ULF Board of Directors interviewees commented that real estate transactions were too far along such that they felt they were unable to vote against property acquisitions. For example, the ULF Board of Directors did not approve the CCG Note for the $4.0 million acquisition of ULGC until December 17, 2013, several days after the transaction

[128] See Exhibit 34 – Email from Joe Gahlinger to Jason Tomlinson dated August 2011.
[129] See Exhibit 33 – Kathleen Smith Self Evaluation.

closed.[130] Notably, the meeting minutes do not reflect the expected source of funding for this loan.

ULF Policy and Procedural Changes

ULF and ULREF are working to determine the highest and best use of the ULAA Properties, including potential disposition. This will include an assessment of the need for ULAA consideration for the use of the ULAA properties.

A&M Recommendations

All future exchanges between ULF and ULAA should be transacted in an arm's length manner. ULF should enact policy to ensure all future transactions be formally documented and fully vetted, including review and approval of both the ULF and ULAA Boards of Directors. When the ULF Board of Directors approves unbudgeted expenditures such as real property acquisitions or loans to ULF Subsidiaries, it should ensure it understands the source of funds ULF proposes using to purchase the property.

The Office of the President should develop a formal process through which ticket purchases and sales are tracked to improve transparency of ticket costs and recoveries, including identifying the individual(s) who received the tickets for each game and tracking any sales and associated cash receipts.

[130] Although the ULF Board of Directors met on December 17, 2013 and approved several real property acquisitions, including the Solae and Eastern Parkway acquisitions, the Executive Committee rather than the complete ULF Board of Directors approved the ULGC acquisition on the same date. A&M notes that according to the Executive Committee meeting minutes, the non-Executive Committee ULF Board of Directors members were also present at the Executive Committee meeting.

4(e) Unbudgeted or Over-Budget Spending: Other Notable Spending

Overview

In addition to compensation and capital expenditures A&M identified other notable transactions and expenditures which likely contributed to ULF's liquidation of Endowment Pool assets for spending in excess of the Spending Policy Allocation.

Findings

Finding 1 – *ULF funded $5.2 million of marketing and advertising expenditures which contributed to ULF exceeding the ULF Budget.*

From FY2014 through FY2016, A&M identified $5.2 million ULF paid to various firms for marketing and advertising expenditures identified in the following table:

Table 24

Advertising & Marketing Fees	FY2014	FY2015	FY2016	Total
Power Graphics Inc	$ 666,738	$ 962,320	$ 1,004,124	$ 2,633,181
Tandem Public Relations & Marketing LLC	458,174	378,065	341,401	1,177,639
Business Journal Publications Inc	142,003	197,879	207,579	547,461
UB Louisville LLC	-	-	300,000	300,000
OUTFRONT Media Inc	-	-	252,482	252,482
Rueff Sign Company	69,385	39,127	21,142	129,654
Lane Consultants, Inc.	-	-	75,975	75,975
Lamar Texas Limited Partnership	-	-	71,500	71,500
Runswitch LLC	-	-	48,000	48,000
Adhawks LLC	-	-	5,000	5,000
Sander Operating Co LLC	-	-	4,550	4,550
Total	**$ 1,336,299**	**$ 1,577,392**	**$ 2,331,752**	**$ 5,245,443**

A sample of invoices paid to these firms indicates UofL/ULF paid marketing and advertisement fees related to UofL magazine, billboards, radio advertisements, and other digital and print advertisements.

Additionally, Ms. Smith entered into an agreement with UB Louisville in June 2015, whereby ULF agreed to pay the radio station $300 thousand per year in exchange for a radio show and advertising time. A&M understands the FFA and/or is in the process or trying to renegotiate this contract with the radio station as it believes the $300 is not a reasonable price for this contract.

4(e) Unbudgeted or Over-Budget Spending: Other Notable Spending

***Finding 2** – ULF funded $4.5 million of legal and landscaping expenditures which contributed to ULF exceeding the ULF Budget.*

A&M identified $2.6 and $1.8 million ULF paid to various firms for legal and landscaping fees, respectively. Legal and landscaping fees were either unbudgeted or paid through programs which exceeded the budgeted amount in the ULF Budget. Legal and landscaping fees are identified in the following table:

Table 25

Vendor	FY2014	FY2015	FY2016	Total
Legal Fees:				
Stites & Harbison PLLC	$ 570,469	$ 449,880	$ 880,455	$ 1,900,804
Frost Brown Todd	240,309	100,225	405,964	746,499
Taft Stettinius & Hollister LLP	-	10,213	2,636	12,849
Total Legal Fees	**$ 810,778**	**$ 560,318**	**$1,289,056**	**$2,660,152**
Landscaping Fees:				
Bramer Bros Landscaping Inc	$ 352,045	$ 435,685	$ 289,718	$ 1,077,447
John Deere Landscapes LLC	-	124,885	-	124,885
Wallitsch Nursery & Landscaping, Inc.	35,763	33,298	49,182	118,243
Hill Turf Company LLC	5,013	57,293	55,620	117,925
Landscape Lighting Company Inc	-	105,992	-	105,992
Dukes Landscaping	13,879	74,944	-	88,823
Full Care of Louisville Inc	8,795	22,303	30,708	61,806
SiteOne Landscape Supply	-	-	53,864	53,864
Cutright Landscape & Lawn Services	53,235	-	-	53,235
Crane Landscaping, Inc.	-	-	8,319	8,319
Perf A Green Inc	1,704	2,160	800	4,664
GreenHaven Tree Care	-	-	4,545	4,545
Walnut Grove Nursery LLC	1,569	223	563	2,354
Total Landscaping Fees	**$ 472,002**	**$ 856,782**	**$ 493,319**	**$1,822,102**
Total Legal and Landscaping Fees	**$1,282,780**	**$1,417,100**	**$1,782,374**	**$4,482,254**

***Finding 3** – ULF paid $243 thousand in consulting fees to certain Entrepreneurial Group members.*

ULF paid consulting fees to the two non-employee, non-ULF Board of Directors Entrepreneurial Group members of the Entrepreneurial Group.

In January 2009, ULF retained Mr. Glasscock through Frost Brown Todd Attorneys, LLC, agreeing to pay Mr. Glasscock up to $100 thousand per year to assist ULF with the evaluation of economic development opportunities. According to discussions with Mr. Glasscock, Frost Brown Todd Attorneys, LLC, received a monthly $8 thousand retainer payment from ULF for Mr. Glasscock's service on the Entrepreneurial Group. Mr. Glasscock's retention with the Entrepreneurial Group overlapped with his tenure on the ULAA Board of Directors. ULF paid Mr. Glasscock's fees through Frost Brown Todd, LLC.

In September 2013, Burt Deutsch's, former ULF Board of Directors Finance Committee chairman, term on the ULF Board of Directors ended. In August 2014, ULF retained Mr. Deutsch, agreeing to pay him $10 thousand per month for consulting services such as evaluating real estate ventures and assisting the CFO and ULF Board of Directors Finance Committee as necessary. From FY2014 through FY2015, ULF paid Mr. Deutsch $243 thousand in consulting fees and expenses.

Finding 4 – *Certain Office of the President procurement card purchases may not be in accordance with UofL's policies.*

UofL issued procurement cards to most UofL Office of the President employees. A&M identified several instances where UofL employees used procurement cards for personal purchases which do not appear to be in accordance with UofL's procurement card policy. Office of the President employees used procurement cards for transactions such as home internet, personal meals, flowers, and employee gift expenses.

A&M reviewed compliance reviews conducted by an internal UofL procurement card compliance analyst. A compliance review conducted in January 2017 identified several instances where Office of the President employees used procurement cards for personal expenses, including home internet service and personal meals. It appears the compliance group informed the Office of the President the home internet charges needed to be included on the employee's Form W-2 as taxable. However, A&M understands from UofL that these amounts the Office of the President did report these amounts to payroll.

ULF Policy and Procedural Changes

A&M understands UofL is in the process of implementing changes to its procurement card policies and procedures, including centralizing the procurement card reconciliation process. In addition to the departmental review already in place, UofL established (or will establish) a centralized team responsible for reviewing procurement card expense reports and the related supporting documentation (such as receipts) for all procurement card expense repo. The centralized procurement card review team will also document any policy violations.

4(e) Unbudgeted or Over-Budget Spending: Other Notable Spending

ULF is in the process of reviewing and identifying unnecessary expenditures, including future spending commitments made by the former administration, and negotiating price reductions or extended payment terms where possible.

5 Underwater Endowments: Understated Underwater Endowments

Overview

When the Endowment Pool market value decreases over a period of time (as a result of spending and/or investment losses), the market value allocated to an individual Endowment Program may fall below the Endowment Gift Principal (the original gift amount). Permanently Restricted Endowment Programs with a market value less than the Endowment Gift Principal are referred to as "Underwater Endowments." ULF reported Underwater Endowments of $0.6 million, $4.5 million, and $23.7 million as of June 30, 2014, 2015, and 2016, respectively.

Specific Procedures Performed

Procedure 1 – *Reviewed Current Use Gift and Underwater Endowment Documentation*

- UofL Carryover Report
  The carryover report contains the unspent cash balance and carryover receivable balance at the end of the period for Current Use Gift and Endowment Programs.

- Endowment Manager Reports:
  Investment tracking software reports that provide Endowment Gift Principal, the Endowment Pool market values, and the allocation of the Endowment Pool market value to the individual Endowment Programs based on the outstanding shares at the end of the period.

- ULF Underwater Endowment Calculation
  Worksheets prepared by the FFA comparing the book and market values of all Endowment Programs.

Procedure 2 – *Quantified Portion of Current Use Gift Carryover Included in Endowment Pool Asset Value*

A&M used the UofL Carryover Report to determine the Current Use Gift Carryover balance at the end of each period. A&M then subtracted the cash and other investment balances from the Current Use Gift Carryover balance, assuming ULF maintains the remaining balance of Current Use Gifts in the Endowment Pool (in accordance with explanations provided by the FFA).

5 Underwater Endowments: Understated Underwater Endowments

Findings

Finding 1 *– ULF's spending resulted in reported Underwater Endowments of $23.7 million as of June 30, 2016.*

ULF's increase in Underwater Endowments is correlated to the decline in the Endowment Pool market value. As explained throughout this report, the Endowment Pool market value declined significantly from June 30, 2014 to June 30, 2016 driven by ULF spending. Because ULF invests Endowment Gifts in an Endowment Pool, the change in market value in a given period impacts all Endowment Programs.

Beginning Endowment Pool Market Value
+ Assets Purchased
- Assets Liquidated for Spending
+/- Investment Returns/(Losses)
Ending Endowment Pool Market Value

Therefore, even if a Permanently Restricted Endowment Program did not receive a Spending Policy Allocation in the current period, its market value may still decline if the overall Endowment Pool market value declines.

Finding 2 *– ULF's overstated Endowment Pool market value resulted in ULF understating its Underwater Endowments by up to $34.4 million.*

ULF's Underwater Endowment calculation did not account for (i) the overstated Endowment Pool Assets discussed in Section 1(a) and 1(b) or (ii) Current Use Gift Carryover.[131]

ULF included intercompany loans in the Endowment Pool market value used to calculate Underwater Endowments, potentially overstating the Endowment Pool market value.[132] Additionally, when ULF "invested" Current Use Gift Carryover funds in the Endowment Pool, ULF did not attribute the Current Use Gift Carryover to Gift Programs (unlike Endowment Gifts), adding funds to the Endowment Pool without increasing the number of outstanding shares. As a result, ULF inflated the Endowment Pool market value attributable to Endowment Programs.

[131] As previously noted, ULF does not always spend the entire amount of Current Use Gift funds in the period received, either due to donor restrictions or because the department to which the Current Use Gift was donated does not immediately need the funds. Historically (prior to FY2016), ULF invested a portion of the Current Use Gift Carryover in the Endowment Pool.

[132] Refer to Section 1 of this report for additional detail.

5 Underwater Endowments: Understated Underwater Endowments

The following table restates ULF's Underwater Endowments, excluding the UHI LOC, JGBCC Grant, and the Current Use Gift Carryover from the Endowment Pool market value:[133]

Table 26

	Market Value		
	FY2014	**FY2015**	**FY2016**
Permently Restricted Endowments	$ 580,226,830	$ 542,795,335	$ 479,899,761
Exclude UHI LOC-JGBCC Grant*	(46,961,497)	(50,560,668)	(52,044,760)
Exclude Current Use Gift Carryover†	(29,392,425)	(30,258,647)	(19,747,702)
Adjusted Permanently Restricted Endowments	**$ 503,872,909**	**$ 461,976,020**	**$ 408,107,299**
Underwater Endowments	$ (617,166)	$ (4,489,624)	$ (23,684,532)
Adjusted Underwater Endowments	(10,442,921)	(29,249,035)	(58,036,467)
Additional Amount Underwater	**$ (9,825,755)**	**$ (24,759,412)**	**$ (34,351,935)**

***Notes*:**

*Portion of UHI LOC-JGBCC Grant allocated to Permanently Restricted Endowments.

†Portion of Current Use Gift Carryover allocated to Permanently Restricted Endowments.

ULF Policy and Procedural Changes

ULF acknowledges the issue of gift carryover as well as the UHI LOC and JGBCC assets being included in the Endowment Pool market value.

In FY 2016 ULF directed all new Current Use Gifts directly to UofL. In FY2017 ULF started using a separate checking account for all Current Use Gifts. Both of these changes attempted to keep new Current Use Gifts out of the Endowment Pool. In FY 2017, ULF started using Current Use Gift Carryover in the Endowment Pool to fund all Current Use Gift Programs. ULF plans to continue this process until the Current Use Gift Carryover in the Endowment Pool is zero. ULF estimates that this process will be complete in FY2018.

As discussed in Section 1, ULF intends to assess the collectability of the UHI LOC, identifying the source of funds and timing in which it expects ULF Subsidiaries (and now ULREF) could potentially repay the UHI LOC.

[133] A&M's analysis assumes the market value of the UHI LOC is $0. Should ULF review the UHI LOC and identify income streams it will use to repay a portion of the UHI LOC, ULF's amount of additional Underwater Endowments would be lower than that which A&M estimates in this report.

5 Underwater Endowments: Understated Underwater Endowments

Additionally, ULF's modified its Spending Policy to reduce its spending and expects that will mitigate (and potentially limit) the impact of these market value changes will have on Underwater Endowments.

Appendix A – Glossary

220 South Preston – 220 South Preston, LLC, a ULREF Subsidiary, develops and manages a parking garage and is a joint venture partnership owned 80% by ULREF and 20% by NTS.

A&M – Alvarez & Marsal Disputes and Investigation, LLC

ACT – Advanced Cancer Therapeutics, LLC

ACT Operating Agreement – Operating Agreement between ACT and ULRF dated as of January 31, 2007

ACT Option Agreement – Technology Option Agreement between ULRF and ACT dated January 31, 2007

Additional Pay – UofL and ULF compensation paid in addition to regular salary referred to as "XPAY"

Advancement Spending Allocation – represents Endowment funds ULF annually allocates for spending, calculated based on 1.5% of the three-year moving average of the market value and used for overall fund-raising efforts for ULF (administered by UofL's Vice President for University Advancement)

AICPA – American Institute of Certified Public Accountants

AMCC – UL Additive Manufacturing Competency Center, LLC, a joint venture partnership owned 50% by IPR and 50% by Underwriters Laboratory

Amended Plan – DCPA, LLC Deferred Compensation for Key Employees of the University of Louisville Foundation, effective July 16, 2014

Annual Donation – Donation paid in advance of each season to renew the athletic season tickets

April 2008 Executive Committee Minutes – April 16, 2008 ULF Board of Directors Executive Committee meeting minutes

Audit Committee –The ULF Board of Directors committee responsible for reviewing and approving ULF's annual financial statement audit and ULF's annual Form 990 (also responsible for general supervision over conflict of interest compliance)

Audited Financial Statements – The ULF audited consolidated statements of financial position, activities, and cash flows

Belknap TIF – The tax increment financing agreement for the Belknap Engineering and Applied Sciences Park near the Belknap Campus

BKD – BKD, LLP

Cambridge – Cambridge Associates, LLC

Cambridge 2012 Spending Memo – The Cambridge memorandum dated November 2012 addressed to Burt Deutsch regarding "Spending Analysis: Impact on the ULF Endowment"

Appendix A – Glossary

Cambridge Advised Endowment Pool Assets – The Endowment Pool assets Cambridge advises upon (identifying asset managers and making investment recommendations)

Cambridge Investment Reports – The quarterly reports of investment value and asset allocation prepared by Cambridge

Campus One – Campus One, LLC, a commercial real estate development located on the ShelbyHurst campus and a joint venture partnership owned 51% by ULF and 49% by NTS

Campus Three – Campus Three, LLC, a commercial real estate development located on the ShelbyHurst campus and a joint venture partnership owned 51% by ULREF and 49% by NTS

Campus Two – Campus Two, LLC, a commercial real estate development located on the ShelbyHurst campus and a joint venture partnership owned 51% by ULREF and 49% by NTS

Cardinal Station – AAF-Louisville, LLC, a ULF Subsidiary, manages the Cardinal Station real estate operations.

CCG – CCG, LLC acquired and operates the ULGC managed by ULAA.

CCG Note – A promissory note dated December 13, 2013 whereby ULF loaned CCG $4 million due to be repaid in full July 1, 2043

COI Form – A form filled out annually by the ULF Board of Directors and UofL Board of Trustees members disclosing any potential conflicts of interest

Current Use Gift – A donation (which may be restricted or unrestricted based on the gift agreement) that UofL may spend in its entirety

Current Use Gift Carryover – The amount of unspent Current Use Gifts at the end of the period

Custodians – The ULF and UofL employees whose hard drives and/or devices were imaged by A&M's forensic technology team

DCPA – DCPA, LLC, a ULF Subsidiary, administers the deferred compensation plans/agreements assigned to it by Minerva in July 2014.

DDAF Rollforward – The schedules prepared by DDAF tracking deferred compensation contributions, monthly earnings, and vesting dates for each Plan participant

DDAF W-2 Files – The quarterly schedules prepared by DDAF presenting deferred compensation, both gross and net of applicable taxes for calendar years 2013 through 2016

Deemed Interest Rate – This is the interest rate equal to the previous 36 quarter moving average of the net return on the total assets of the foundation as reported by Cambridge Associates LLC, or its successors as independent investment advisors to the Foundation. The Amended Plan amended the Deemed Interest Rate definition to mean an interest rate equal to the previous 36 month moving average of the net return on the

Appendix A – Glossary

Total ULF Pool of the foundation as reported by Cambridge Associates LLC, or its successors as independent investment advisors to the Foundation.

Deferred Bonuses – The UofL and ULF bonuses awarded as deferred compensation contributions

Deferred Compensation Tax Reporting – The employee tax documentation reporting taxable deferred compensation wages and earnings

Deferred Salary – The UofL and ULF salary increase awarded as a deferred compensation contribution

Endowment – The Endowment Pool, Non-Pool Endowment Assets, and FHITBO

Endowment Gift – A donation held in perpetuity for which UofL may spend only the income generated through investment

Endowment Gift Principal – The original Endowment Gift amount plus any additional gift amount received or reinvestment

Endowment Pool – A pool of assets in which ULF invests Endowment Gifts

Endowment Program Spending Allocation – Represents the Endowment funds ULF annually allocates for spending, calculated based on 5.5% of the three-year moving average of the market value and used for the specific purposes identified for each Endowment Program

Endowment Programs – The programs codes established in PeopleSoft used to track the transactional activity related to a specific Endowment Gift (including additional gifts and spending)

Engagement – The Special Forensic Investigation of the activities and accounts of ULF and its subsidiaries and affiliates from July 1, 2010 to June 30, 2016 (UofL and A&M agreed to refine the scope of the Engagement to investigate ULF's financial transactions for the fiscal years ended June 30, 2014 through June 30, 2016 in detail and review select types of transactions over a longer time period.)

Entrepreneurial Group – A group comprised of ULF Officers, ULF Board of Directors members, and outside consultants responsible for identifying and performing due diligence (with the assistance of outside counsel) on potential investment opportunities (including startup companies and real estate ventures) and making investment recommendations to the ULF President

Evergreen Fund – An undesignated Quasi Endowment the ULF Board of Directors authorized the ULF President to use for "special projects" in December 2004

Executive Committee – A ULF Board of Directors committee made up of the ULF President, the ULF Board of Directors chairman and three at-large ULF Board of Directors members that may exercise all of the authority of the ULF Board of Directors

Face Value – The nominal value of the season tickets

Appendix A – Glossary

FFA – The Foundation Financial Affairs Office which provides budgeting and financial management services for ULF and its corporate affiliates, created in fiscal year 2016

FHITBO or Funds Held in Trust by Others – UofL funds held and managed by third-parties

FHITFO or Funds Held in Trust for Others – Third party funds held and managed by ULF

Finance Committee – A ULF Board of Directors committee with supervision over ULF's finances and budget

FY – fiscal year (normally July 1 through June 30)

Gift Programs – The program codes established in PeopleSoft used to track the transactional activity related to a specific Current Use Gift

HSC TIF – The tax increment financing agreement for the Health and Life Sciences district in downtown Louisville

IPR – The Institute for Product Realization, LLC, a ULREF Subsidiary, develops and manages real estate near the UofL Belknap campus.

JGBCC – James Graham Brown Cancer Center

JGBCC Grant – An agreement whereby UHI granted $10 million to ULRF with the funds to be provided to the JGBCC for on-going research activities

KYT – KYT-Louisville, LLC, a ULF Subsidiary, manages the purchase and development of real estate adjacent to UofL's Belknap Campus.

LMCDC – The Louisville Medical Center Development Corporation, a ULF Subsidiary, holds and administers tax incremental financing projects.

Metacyte – Metacyte Business Lab, LLC, a ULF Subsidiary, identifies and supports commercially promising health science discoveries in the region.

Minerva – Minerva-Louisville, LLC, a ULF Subsidiary, administered various deferred compensation plans/agreements until July 2014 when the deferred compensation plans were assigned to DCPA.

Non-Pool Endowment Assets – Endowment assets separately managed by ULF outside of the Endowment Pool

NTS – NTS Realty Holdings Limited Partnership

Nucleus – Nucleus Kentucky's Life Sciences and Innovation Center, LLC, a ULF Subsidiary, integrates University resources with those of the region specifically as it relates to maintaining a research park in downtown Louisville.

Other UofL Compensation – The Box 12 and Box 14 compensation reported on UofL Forms W-2

Appendix A – Glossary

Participation Agreements – The employee agreements used to enroll employees in the Plan which define contributions, earnings, and tax gross-ups offered to the Plan participants

Payroll GL Data – The PeopleSoft accounting records of gross compensation processed through UofL as paymaster for UofL (and its affiliates) and ULF for calendar years 2010 through 2016

PCAOB – Public Company Accounting Oversight Board

Permanently Restricted Endowment – An Endowment Gift limited by donor stipulations that either do not expire or cannot be fulfilled by UofL meeting some pre-determined requirement

PGxL – Pharmacogenetics Diagnostic Laboratory, LLC

Phoenix Place – Phoenix Place-Louisville, LLC, a ULF Subsidiary, manages the purchase and development of property near UofL's health sciences campus.

Plan – The University of Louisville Inc. Key Employee Deferred Compensation Plan, effective January 1, 2005

Predated Contributions – Deferred compensation contributions with an effective date prior to the Participation Agreement date

President Initiative Spending Allocation – Represents Endowment funds ULF annually allocates for spending, calculated based on 0.48% of the three-year moving average of the market value and used for high strategic initiatives and program enrichment (administered by the ULF President)

PSF - Per square foot, as used in reference to property lease rates

Quasi Endowment – An Endowment created by the ULF Board of Directors by combining one or more Current Use Gifts into an Endowment Program

Research Sponsorship Agreements – A sponsorship agreement with ULRF whereby a company pays ULRF for research conducted by UofL researchers

Review Period – Fiscal years ended June 30, 2014 through June 30, 2016

RFP – The request for proposal dated September 26, 2016 issued by UofL for a "Special Forensic Audit"

SEC – U.S. Securities and Exchange Commission

ShelbyHurst TIF – The tax increment financing agreement for the ShelbyHurst Research and Office Park around and including the ShelbyHurst Campus

Spending Policy – The methodology ULF uses to allocate Endowment funds for spending, applying an annual spending rate (7.48%) to the Endowment Pool's three-year moving average (ULF's Spending Policy is set forth in the ULF Endowment Spending Policy memoranda effective July 1, 2013 and July 1, 2014 approved by the ULF Board of Directors.)

Appendix A – Glossary

Spending Policy Allocation – The funds ULF annually allocates for spending based on the Spending Policy comprised of the following components: Endowment Program Spending Allocation, Advancement Spending Allocation, and President Initiative Spending Allocation

Spending Policy Allocation Carryover – The amount of unspent Spending Policy Allocation at the end of the period

Startup Companies – The 11 new business ventures in which ULF invested (Startup Companies include: Advanced Cancer Therapeutics, Antisoma, Apovax (ApoImmune), Edumedics, Gnarus, Indigo Olive, InScope, Intrepid, PGxL, RhinoCyte, and TNG.)

Temporarily Restricted Endowment – An Endowment Gift limited by donor stipulations that expire or can be fulfilled by UofL meeting a pre-determined requirement

Termination Date – March 31, 2017, the date the ULF Board of Directors voted to terminate the Plan, for all participants

TIF or Tax Increment Financing – A public financing subsidy for development in a specific area where state or local governments pledge a portion of future tax increases in an area to fund the development costs

Ticket Donations – The Up-front Donation and the Annual Donation

TNRP – The Nucleus Real Properties, a ULF Subsidiary, develops, improves, and manages the building at 300 E Market Street.

Total Plan Cost – Deferred compensation contributions, earnings, and tax gross-ups from enrollment through calendar year 2016

UHI – University Holdings Inc., a ULF Subsidiary, (formerly known as Cardinal Real Estate) provides oversight and management support to the following ULF Subsidiaries: ULDC, Nucleus, Metacyte, Cardinal Station, KYT, Phoenix Place.

UHI Employees – UofL/ULF employees who received pay from UofL/ULF and UHI

UHI Line of Credit or UHI LOC – An intercompany loan from ULF to UHI

ULAA – University of Louisville Athletic Association

ULAA Letter – An April 19, 2012, letter from Kathleen Smith to Kevin Miller, in which ULAA agrees to contribute funds to support UofL salary increases in exchange for the use of two ULF properties

ULAA MOU – A January 29, 2010, Memorandum of Understanding from Kevin Miller to Kathleen Smith, which outlines the purchase of real estate and payments for staff reorganization costs by ULF in exchange for the satisfaction of Up-front and Annual Donations for football and men's basketball season tickets

Appendix A – Glossary

ULAA Properties – The real property assets purchased by ULF for the use of ULAA including: Trager Stadium, Brook St. Connector, Old World Pasta, Baseball Parking, Residential Baseball, Clark/Baseball Parking 1, Equipment Depot, Martco – Byrne Properties, Frost Home, Iowa Avenue, and ULGC

ULDC – University of Louisville Development Corporation, LLC, a ULF Subsidiary, develops and manages real estate operations at UofL's ShelbyHurst Campus.

ULF – University of Louisville Foundation

ULF Subsidiaries – Wholly owned subsidiaries of ULF, including: ULH, UHI, ULDC, Nucleus, Metacyte, Cardinal Station, KYT, Phoenix Place, LMCDC, TNRP, CCG, Minerva, and DCPA

ULF Board of Directors – The 15-member board responsible for directing and supervising ULF

ULF Budget – The annual ULF operating budget approved by the ULF Board of Directors

ULF By-Laws – The by-laws of the University of Louisville Foundation, Inc. adopted March 8, 2010

ULF Forms W-2 – The employee-level tax documentation reporting wages and other compensation for ULF, UHI, ULF Subsidiaries

ULF Fund Account – A ULF bank account opened in March 2015 to transact ULF's general operating activities, intended to excluded Endowment and Current Use Gift activity

ULF Managed Endowment Pool Assets – The intercompany loans and Startup Company investments managed by ULF and recorded as Endowment Pool assets

ULF Officers – The principal officers of ULF including the Chairman, Vice Chairman, President, one or more Vice Presidents, Secretary and Treasurer (During the Review Period, the ULF Officers consisted of Dr. James Ramsey, President; Shirley Willinghanz, Executive Vice President; Kathleen Smith, Assistant Secretary; Mike Curtin, Assistant Treasurer; and Jason Tomlinson, Assistant Treasurer.)

ULF Operating Account – The bank account ULF historically used for all of its transactions including gift, endowment, and other cash activity (also referred to as Bank 4)

ULGC – University of Louisville Golf Club

ULH – ULH Inc., a ULF Subsidiary, leases land and issues revenue bonds for student housing and manages and operates certain student housing properties.

ULREF – University of Louisville Real Estate Foundation, Inc.

ULREF Subsidiary – The wholly owned subsidiary of ULREF - IPR

ULREF to ULF MOA – A Memorandum of Agreement between ULREF and ULF dated June 30, 2016 whereby ULREF agreed to pay ULF $28.9 million in conjunction with ULF's transfer of the ULF Subsidiaries Nucleus and KYT to ULREF

Appendix A – Glossary

ULRF – University of Louisville Research Foundation

ULRF Dilution Event – The sale by ACT of Common Shares in one or more related or unrelated transactions for aggregate cash consideration of at least $15 million, or at the written election of ULRF, the ULRF Equity Interest converts into Common Shares representing 30% of the outstanding Shares on a Fully-Diluted Basis

Underwater Endowments – Permanently Restricted Endowment Programs with a market value less than the Endowment Gift Principal (or book value)

UofL – University of Louisville

UofL to ULF MOA – a Memorandum of Agreement between UofL and ULF dated June 27, 2014, whereby UofL agreed to loan ULF $29 million

UofL to ULREF MOA – a Memorandum of Agreement between UofL and ULREF dated July 1, 2015 whereby UofL agreed to loan ULREF $38 million

UofL W-2 Data – The employee tax data reporting UofL taxable wages and compensation

Up-front Donation – The donations made in advance of the ticket purchase, which in aggregate determine the location of the seat the donor is eligible to purchase

Exhibit 1

Procedures & Findings Report
ULF Board of Directors[1, 2]
Exhibit 1

FY10					FY11				
Member	T	E	F	A	Member	T	E	F	A
Marie Abrams									
Kevin Cogan									
Robert W. Rounsavall			x						
Dr. Barbara Weakley-Jones									
Harry Jones			x		Harry Jones			x	
Owsley B. Frazier				x	Owsley Frazier				x
Sam Rechter				x	Sam Rechter			x	x
William Wilcox			x		William Wilcox			x	
Chester Porter	C	C			Chester Porter	C	C		
Burt Deutsch	VC	x	C	x	Burt Deutsch	VC	x	C	x
Eddy Roberts	S	x		x	Eddy Roberts	S	x		x
Dr. Salem George				C	Dr. Salem George				C
Joyce Hagen	T	x	x	x	Joyce Hagen	T	x	x	x
Margaret Handmaker					Margaret Handmaker				
Dr. James Ramsey	P	x			Dr. James Ramsey	P	x		
Dr. William Selvidge			x	x	Dr. William Selvidge			x	x
Frank Weisberg			x	x	Frank Weisberg			x	x
					Lalit Sarin				
					Charles Denny				

FY12					FY13				
Member	T	E	F	A	Member	T	E	F	A
Owsley Frazier				x					
Sam Rechter			x	x					
William Wilcox									
Chester Porter	C	C			Chester Porter				
Burt Deutsch	VC	x	C	x	Burt Deutsch		x	C	x
Eddy Roberts	S	x		x	Eddy Roberts		x		x
Dr. Salem George				C	Dr. Salem George				C
Joyce Hagen	T	x	x	x	Joyce Hagen	VC	x	x	x
Margaret Handmaker					Margaret Handmaker				
Dr. James Ramsey	P	x			Dr. James Ramsey	P	x		
Dr. William Selvidge			x	x	Dr. William Selvidge		C	x	x
Frank Weisberg			x	x	Frank Weisberg	S		x	x
Lalit Sarin									
Charles Denny					Charles Denny				
Debbie Scoppechio					Debbie Scoppechio	C			
Dr. Mark Lynn					Dr. Mark Lynn			x	
					Jonathan Blue				
					Ulysses Bridgeman	T	x	x	
					Frank Minnifield				

FY14					FY15					FY16				
Member	T	E	F	A	Member	T	E	F	A	Member	T	E	F	A
Burt Deutsch		x	x											
Eddy Roberts		x												
Dr. Salem George				C	Dr. Salem George				C	Dr. Salem George				
Joyce Hagen	VC	x	x	x	Joyce Hagen	VC	x	x		Joyce Hagen	VC	x	x	
Margaret Handmaker					Margaret Handmaker					Margaret Handmaker		x		
Dr. James Ramsey	P	x			Dr. James Ramsey	P	x			Dr. James Ramsey	P	x		
Dr. William Selvidge	C	C	C	x	Dr. William Selvidge			C	x	Dr. William Selvidge			C	
Frank Weisberg	S	x	x	x	Frank Weisberg	S	x	x	x	Frank Weisberg	S	x	x	
Charles Denny					Charles Denny				x	Charles Denny				
Debbie Scoppechio	C	C			Debbie Scoppechio									
Dr. Mark Lynn			x		Dr. Mark Lynn			x		Dr. Mark Lynn			x	
Jonathan Blue					Jonathan Blue					Jonathan Blue				
Ulysses Bridgeman	T	x	x		Ulysses Bridgeman	T	x	x		Ulysses Bridgeman	T	x	x	
Frank Minnifield					Frank Minnifield					Frank Minnifield				
Dr. Larry Benz					Dr. Larry Benz				x	Dr. Larry Benz				
Rebecca Jackson					Rebecca Jackson					Rebecca Jackson				
Joseph Prather II					Joseph Prather II			x		Joseph Prather II			x	
					Dr. Robert Hughes	C	C			Dr. Robert Hughes	C	C		
										Brucie Moore		x	x	

KEY	
Title ("T")	
President	P
Chair	C
Vice Chair	VC
Treasurer	T
Secretary	S
Committee	
Executive Committee	E
Financial Committee	F
Audit Committee	A

Interviews	
Declined Interview	8
Not Available to Interview	3
Interviewed	10

***Notes*:**

[1]Schedule prepared based on ULF Board of Directors minutes, a ULF Board of Directors member is listed under the fiscal year if the member appeared in the ULF Board of Director minutes for any meeting during that fiscal year. A&M noted a few errors, including individuals identified as ULF Board of Directors members in the minutes who in fact were never on the ULF Board of Directors. A&M corrected for the errors identified.

[2]An "x" in columns "E", "F", and "A" indicate a ULF Board of Directors member who served on the Executive, Financial, or Audit Committees, respectively. A "C" represents the committee chairperson.

Exhibit 2

Procedures & Findings Report

Endowment and Non-Endowment Assets Analysis

Exhibit 2

(In thousands)

	FY2014					FY2015					FY2016				
	Endowment Pool[1]	Non-Pool Endowment Assets[2]	Total Endowment	Non-Endowment[3]	Total	Endowment Pool[1]	Non-Pool Endowment Assets[2]	Total Endowment	Non-Endowment[3]	Total	Endowment Pool[1]	Non-Pool Endowment Assets[2]	Total Endowment	Non-Endowment[3]	Total
Cambridge Advised Funds[4]	$ 733,371	$ -	$ 733,371	$ -	$ 733,371	$ 685,043	$ -	$ 685,043	$ -	$ 685,043	$ 570,040	$ -	$ 570,040	$ -	$ 570,040
Reported but Not Advised by Cambridge															
Mohr Endowment[5]	$ -	$ 208	$ 208	$ -	$ 208	$ -	$ 205	$ 205	$ -	$ 205	$ -	$ 199	$ 199	$ -	$ 199
UHI Line of Credit[6]	63,990	-	63,990	-	63,990	69,376	-	69,376	-	69,376	42,879	-	42,879	-	42,879
Unitrust[7]	-	-	-	6,964	6,964	-	-	-	7,086	7,086	-	-	-	6,731	6,731
Startup Company Investments[8]	-	-	-	-	-	4,864	-	4,864	-	4,864	2,701	-	2,701	-	2,701
PNC Schoen[9]	-	-	-	-	-	2,313	-	2,313	-	2,313	2,283	-	2,283	-	2,283
UofL Trust (FHITBO)[10]	-	-	-	-	-	-	21,559	21,559	-	21,559	-	21,631	21,631	-	21,631
FHITBO[10]	-	-	-	-	-	-	-	-	-	-	-	29,167	29,167	-	29,167
Frazier Gift Fund[11]	-	-	-	-	-	-	-	-	-	-	-	-	-	21,559	21,559
KYT CD[12]	-	-	-	-	-	-	-	-	-	-	-	-	-	8,169	8,169
ULF Fund[13]	-	-	-	-	-	-	-	-	-	-	-	-	-	20,871	20,871
Community Park Investment[14]	-	-	-	-	-	-	-	-	-	-	13,540	-	13,540	-	13,540
Osher Fund[5]	-	-	-	-	-	-	-	-	-	-	-	990	990	-	990
Jean Frazier Fund[5]	-	-	-	-	-	-	-	-	-	-	-	2,004	2,004	-	2,004
Other Investments in Cambridge Report	63,990	208	64,198	6,964	71,162	76,553	21,765	98,318	7,086	105,404	61,403	53,990	115,393	57,331	172,724
Investments Reported by Cambridge	$ 797,362	$ 208	$ 797,569	$ 6,964	$ 804,533	$ 761,596	$ 21,765	$ 783,360	$ 7,086	$ 790,446	$ 631,443	$ 53,990	$ 685,433	$ 57,331	$ 742,764
Investments in Financial Statements not reported by Cambridge															
Startup Company Investments[8]	$ 5,001	$ -	$ 5,001	$ -	$ 5,001	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
PNC Schoen[9]	2,303	-	2,303	-	2,303	-	-	-	-	-	-	-	-	-	-
UofL Trust (FHITBO)[10]	-	21,462	21,462	-	21,462	-	-	-	-	-	-	-	-	-	-
FHITBO[10]	-	31,018	31,018	-	31,018	-	30,385	30,385	-	30,385	-	-	-	-	-
Osher Fund[5]	-	-	-	-	-	-	927	927	-	927	-	-	-	-	-
Frazier Gift Fund[11]	-	-	-	10,154	10,154	-	-	-	9,447	9,447	-	-	-	-	-
KYT CD[12]	-	-	-	8,128	8,128	-	-	-	8,149	8,149	-	-	-	-	-
Fixed Income Account[13]	-	-	-	19,248	19,248	-	-	-	102	102	-	-	-	-	-
ULF Fund[13]	-	-	-	125	125	-	-	-	298	298	-	-	-	-	-
Henry Heuser Contribution in Kind[15]	-	-	-	3,471	3,471	-	-	-	3,471	3,471	-	-	-	3,471	3,471
KDP Investment Activity[16]	-	-	-	1,211	1,211	-	-	-	1,163	1,163	-	-	-	-	-
2013 Bond Proceeds[17]	-	-	-	1,285	1,285	-	-	-	-	-	-	-	-	-	-
ULAA Invested Funds for Denny Crum[18]	-	-	-	2,044	2,044	-	-	-	1,567	1,567	-	-	-	1,106	1,106
Other Investments[19]	-	-	-	1,026	1,026	-	-	-	1,214	1,214	-	-	-	436	436
MetaCyte Investments[20]	-	-	-	204	204	-	-	-	204	204	-	-	-	343	343
Campus 1 & 2[21]	-	-	-	2,644	2,644	-	-	-	3,026	3,026	-	-	-	5,599	5,599
ULH[22]	-	-	-	5,784	5,784	-	-	-	5,899	5,899	-	-	-	4,619	4,619
ULREF Receivable[6]	-	-	-	-	-	-	-	-	-	-	28,879	-	28,879	-	28,879
Sub-Total Other Investments	7,303	52,480	59,783	55,325	115,108	-	31,312	31,312	34,540	65,852	28,879	-	28,879	15,573	44,452
Capital Assets (Property), net	-	-	-	168,412	168,412	-	-	-	167,928	167,928	-	-	-	189,204	189,204
Capital Assets (Other), net	-	-	-	11,461	11,461	-	-	-	10,600	10,600	-	-	-	8,542	8,542
Capital assets, net	-	-	-	179,873	179,873	-	-	-	178,528	178,528	-	-	-	197,746	197,746
Total Investments Not Reported by Cambridge	7,303	52,480	59,783	235,198	294,981	-	31,312	31,312	213,067	244,379	28,879	-	28,879	213,319	242,197
(Due to)/Due From[23]	(14,773)	-	(14,773)	-	(14,773)	(16,813)	-	(16,813)	-	(16,813)	1,350	-	1,350	-	1,350
Total Investments	**$ 789,892**	**$ 52,687**	**$ 842,579**	**$ 242,161**	**$ 1,084,740**	**$ 744,783**	**$ 53,077**	**$ 797,860**	**$ 220,153**	**$ 1,018,013**	**$ 661,672**	**$ 53,990**	**$ 715,662**	**$ 270,650**	**$ 986,312**

Procedures & Findings Report

Endowment and Non-Endowment Assets Analysis

Exhibit 2

Notes:

1) Endowment Pool assets represent the market value of the assets included in the Endowment Pool.
2) Non-Pool Endowment Assets represent the assets that are part of the Endowment, but not invested in the Endowment Pool. These include FHITBO and Endowment Programs that due to the nature of the gift agreement must be managed separately from the Endowment Pool.
3) Non-endowment assets represent other ULF managed investments that do not factor into the market value of the Endowment.
4) Cambridge Advised Endowment Pool Assets funds represent amounts reported in the ULF Audited Financial Statements, which may differ from Cambridge reported numbers due to timing differences of reported market values. The Cambridge Investment Report relies on the most up to date information at the time of report, which is produced before the Audited Financial Statements.
5) Investments managed by Vanguard, which benefit specific Endowment Programs.
6) Intercompany receivable that is eliminated in the ULF Audited Financial Statements. A portion of the UHI LOC liability was transferred to ULREF in FY2016, reported as the ULREF receivable. UHI LOC includes JGBCC Grant to ULRF.
7) Investments managed by PNC where interest is paid to donors. When donors pass away, funds will be endowed or designated as current use depending on the gift agreement.
8) Startup company investments represent ULF's direct investments in Startup Companies (e.g. ACT, PGxL, etc.).
9) PNC Schoen represent Endowment Pool investments managed by PNC not advised by Cambridge.
10) Funds Held in Trust by Others represent assets managed by third-parties that benefit specific Endowment Programs.
11) Oswley Frazier Gift separately invested in FY2016 ($10 million held as cash in FY2014 and FY2015).
12) Funds invested in a CD at Republic Bank, required to collateralize the KYT property purchase.
13) Funds held in the Fixed Income Account at Invesco during FY2014 and FY2015, and moved into the ULF Fund in FY2016 due to poor performance of the Fixed Income Account. The Fixed Income Account was liquidated in late FY2015 and held in cash at 6/30/2015, before being invested in the ULF Fund managed by Vanguard during FY2016.
14) Intercompany loan between ULF and ULH for Community Park dorm refinancing, eliminated in ULF's Audited Financial Statements.
15) In FY2014 ULF acquired 990 Class B units of Sapulpa Real Estate Holdings, LLC by issuing a note payable to CF One, LLC. If the property in Sapulpa is sold ULF receives the proceeds and pays back the note with interest to CF One, LLC.
16) KDP Building held as an investment (not included in capital assets).
17) Money invested designated for payments on bonds, issued by ULF in FY2013, for the construction of the TNRP building.
18) Funds held in trust for ULAA designated for payments to Denny Crum, separately invested.
19) FY2014 and FY2015 balances represent investments in the Cardinal Venture Fund (gift to entrepreneurial program held at the local venture capital firm the Yearling Fund), Student Managed Fund (held at Hilliard Lions), the Porter Property, and the PNC Held Special Gifts. The Porter Property was moved to capital assets in FY2016.
20) MetaCyte investments represent the market values of founders equity MetaCyte receives in return for advisory services (separate from ULF direct investments).
21) Investment represents the contributions less distributions and any equity adjustments of Campus One and Campus Two. In FY2016 ULF transferred Campus Two to ULREF. Campus Two was revalued before transfer and a $2.7 million gain was realized in the form of an equity adjustment in the ULREF consolidated financial statements.
22) ULH reserve funds invested at BNY Mellon for lease reserve, maintenance reserve, and other operating expenses of ULH.
23) Represents Spending Policy Allocation funds spent by UofL in the current period that is to be funded by ULF in a subsequent period.

Exhibit 3

Procedures & Findings Report

UHI LOC Analysis

Exhibit 3[1]

	UHI LOC Balance									
Fiscal Year	Nucleus	MetaCyte	ULDC	KYT	UHI	Cardinal Station	Phoenix Place	UHI LOC Balance	JGBCC Grant	UHI LOC Balance
2008	$ 617,353	$ -	$ 896,359	$ -	$ -	$ -	$ -	$ 1,513,712	$ -	$ 1,513,712
2009	866,162	1,094,727	8,175,761	879,758	-	638,231	44,128	11,698,767	-	11,698,767
2010	1,452,595	2,348,125	11,935,864	2,129,125	-	1,610,552	45,605	19,521,866	-	19,521,866
2011	2,742,786	3,695,251	14,449,687	3,716,336	75,496	793,214	47,133	25,519,903	-	25,519,903
2012[(2)]	3,844,527	5,212,404	19,886,771	9,596,225	231,842	471,615	48,702	39,292,086	3,000,000	42,292,086
2013	5,187,470	6,477,949	22,998,565	15,202,738	239,584	111,247	50,329	50,267,882	6,189,696	56,457,578
2014	6,775,552	7,776,656	21,706,720	19,000,750	270,253	-	-	55,529,931	8,460,445	63,990,376
2015	7,103,663	8,034,528	22,972,312	20,177,956	294,304	-	-	58,582,763	10,792,772	69,375,535
2016	8,136,533	8,065,757	23,350,678	20,742,288	295,448	-	-	60,590,705	11,167,112	71,757,817
									ULF FY2016 Balance[3]	42,878,996
									ULREF FY2016 Balance[4,5]	28,878,821

	UHI LOC Draws and Paydowns								
	Nucleus	MetaCyte	ULDC			KYT[6]	UHI		JGBCC
Fiscal Year	Operating Expenses	Operating Expenses	Campus One	Campus Two	Infrastructure and OpEx	Debt Service and OpEx	Operating Expenses	Balance	JGBCC Grant
2008	$ 606,000	$ -	$ -	$ -	$ 894,000	$ -	$ -	$ 1,500,000	$ -
2009	221,531	1,058,964	-	-	7,124,039	871,866	-	10,776,400	-
2010	547,346	1,200,000	-	-	3,403,332	1,199,927	-	17,127,005	-
2011	1,225,000	1,250,000	1,034,535	-	1,050,000	1,493,066	75,000	23,254,606	-
2012	988,232	1,375,000	3,935,415	-	950,000	5,675,956	150,000	36,329,208	3,000,000
2013	1,205,000	1,075,000	501,940	300,951	1,600,000	5,199,129	-	46,211,228	3,000,000
2014	1,403,469	1,062,852	(3,570,000)	1,052,640	503,829	3,300,196	22,078	49,986,290	2,000,000
2015	100,000	(240)	-	532,950	(9)	535,000	15,000	51,168,991	2,000,000
2016	982,908	-	-	-	-	45,000	-	52,196,899	-
	$ 7,279,486	**$ 7,021,576**	**$ 1,901,890**	**$ 1,886,541**	**$ 15,525,191**	**$ 18,320,139**	**$ 262,078**		**$ 10,000,000**

Notes:

1) A&M relied on ULF prepared UHI LOC schedules and reconciliations to determine UHI LOC activity by entity. A&M verified all UHI LOC activity to bank statements and general ledger activity from FY2014 through FY2016.
2) The UHI LOC principal threshold of $35 Million was passed on May 10, 2012.
3) The ULF FY2016 balance reported on the June 30, 2012 Cambridge report consists of the following entities: MetaCyte, ULDC, UHI, and JGBCC.
4) The ULREF FY2016 balance consists of the following entities which were transferred to ULREF in FY2016: Nucleus and KYT.
5) According to the Memorandum of Agreement between ULREF and ULF dated June 30, 2016, the Nucleus portion of the UHI LOC transferred to ULREF is $8,136,532. The Nucleus liability established includes $982,908 of Haymarket development activity paid for by ULF on behalf of ULREF.
6) In FY2012, KYT drew $1.6 million to purchase Chevron and in FY2014 drew $3.2 million to purchase Solae. It appears ULF initially identified the UHI LOC as the source of funds but later reversed those entries.

Exhibit 4

To: Tomlinson,Jason[jason.tomlinson@louisville.edu]
Cc: Kramer,Michael Dennis[mike.kramer@louisville.edu]
From: Ruhl,Justin William
Sent: Fri 9/27/2013 9:04:58 PM
Subject: Endowment Spending Reconciliation
Endowment Market Value Reconciliation.xlsx

Jason,

Attached is our draft of the details that reconcile the Cambridge return to the actual change in the endowment's market values. The details included illustrate the spending policy budget vs. actual expense. It also outlines the "off the top" spending by category. Finally, it calculates the lost opportunity costs from investing in UHI vs. leaving funds under Cambridge's management.

There is still quite a few levels in the spreadsheet to derive at the answer. I am sure some of the info can be summarized further, but for an initial run thru this reconciliation, we thought there needs to be sufficient details to re-create in the future (or apply to prior years if historical analysis will be presented). We are open to suggestions. Let us know your comments.

Regards,

Justin Ruhl, CPA
Foundation Accounting Supervisor
University of Louisville
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Louisville, KY 40292
T **502.852.8254** | **F** **502.852.8228**
C **502.303.6641**
www.louisvillefoundation.org

LOUISVILLE FIRST
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Endowment Market Value Reconciliation

Cambridge reported return @ 6.30.13	10.8%		
12.31.09 Total Asset Value			
12.31.10 Total Asset Value	699,095,011		
12.31.11 Total Asset Value	686,979,043		
12.31.12 Total Asset Value	728,589,288		
Spending Policy Total %	7.48%		
Total amount allocated to spending	51,839,170		
Underwater Endowments spending reduction	(4,388,552)		
Annual adjusted spending policy allocation	47,450,618		
	Budget FY 2013	**Actual FY 2013**	**Favorable (Unfavorable)**
Spending Policy			
Departments (5.5%)	34,424,300	30,229,457	4,194,843
Unspent Carryover	47,870,131	47,870,131	-
Total budget	82,294,431	78,099,588	4,194,843
Advancement (1.5%)	9,868,423	10,746,710	(878,287)
President's Development Fund (.48%)	3,157,895	3,451,966	(294,071)
Check (s/b $0)	-	3,022,485.56	
Effective spend rate	7.48%	6.41%	
Market Value change net of effective spend rate		4.4%	
Actual change in Market Value of Assets		3.7%	
Off the top spending rate (%)		0.7%	
6.30.13 endowment pool value		713,950,408	
Off the top spending total re-calculated		4,921,664	
Investment manager fees		(1,659,483)	
Minerva payments		(898,187)	
Humana gym		(825,000)	
Salaries and allocated admin charges		(515,129)	
Road project cost share programs		(353,976)	
Old World Pasta Lot Expenses		(208,715)	
Dorm mold renovation		(159,099)	
Various Others - ***see note 1 below***		(302,076)	

[1] The remaining off the top amounts are not specified here as they are attributable to a significant number of programs. Expenses such as maintenance of all Foundation owned real estate with no revenue sources are included in this amount (e.g. Martco, Doyle House, Steedly, Fisher House, Lake Ave, North Entrance Fountain, etc.). Other U & Z programs without funding sources and not included in the spending policy calcs above would also be considered in this total.

ULF Comment:

Note that the UHI LOC does not contribute to the variance in the reported change in market values due to off the top spending. The effect UHI has on the endowment pool is the lost opportunity cost of taking money from the endowment pool earning 10.8% in FY13 and capping it's return at 3.25% (the allowed intercompany interest rate charged to UHI). The analysis below quanitifies the lost opportunity cost:

6.30.12 UHI LOC Balance	42,367,491
6.30.13 UHI LOC Balance	56,478,276
Average FY13 balance	49,422,884
Actual return - 3.25%	1,606,244
Cambridge return - 10.8%	5,337,671
FY13 lost return	3,731,428

Exhibit 5

To: Smith,Kathleen McDaniel[kimcda01@exchange.louisville.edu]
From: Burt Deutsch
Sent: Thur 3/28/2013 2:36:47 PM
Subject: RE: 600 North Hurstbourne Permanent Loan Process

See my comments, below.

From: Smith,Kathleen McDaniel [mailto:kathleen.smith@louisville.edu]
Sent: Wednesday, March 27, 2013 1:46 PM
To: Burt Deutsch
Subject: FW: 600 North Hurstbourne Permanent Loan Process
Sensitivity: Confidential

Fyi. K

Sent via the Samsung Galaxy Note® II, an AT&T 4G LTE smartphone

-------- Original message --------
From: "Ramsey,James Richard" <jrrams02@exchange.louisville.edu>
Date: 03/27/2013 11:59 AM (GMT-05:00)
To: "Curtin,Michael J." <mjcurt01@exchange.louisville.edu>
Cc: "Willihnganz,Shirley C." <scwill01@exchange.louisville.edu>,"Smith,Kathleen McDaniel" <kimcda01@exchange.louisville.edu>
Subject: FW: 600 North Hurstbourne Permanent Loan Process

Mike,

Thanks for the information. Whatever the Entrepreneurial Group believes is in the best interest of the UofL Foundation and UofL is appropriate. The table with the Operating Expenses is very helpful. Do you have an amortization table for each of the two proposals under their various assumptions? What I would hope to ultimately get to would be:

a. A portion if not all of the land lease payment flow back directly to academic support.

THIS MAKES SENSE COMPLETELY. The University has leased the ground to the Foundation. The Foundation SHOULD/CAN remit ALL of the ground lease payments to the University PERIOD for the University to handle in its budgeting discretion. (The only caveat to this is that the Foundation's continuing investments in the infrastructure and other development issues--zoning, traffic studies, and the like, are what generates the premium "ground value" that generates the high ground lease rate. In other words, the ground rent is NOT just a factor of the initial ownership of the land by the University but also aided and abetted by the Foundation's investment to increase the value of the land, and thus the ground rental rate, to various building partnerships.)

b. A portion of the hoped for difference between debt service and net free cash flow would be returned to the Foundation for other investment opportunities and repayment on existing investments, and a portion would be transferred to our budget to support our teaching and research missions.

I AM SOMEWHAT CONFUSED ON THIS POINT. The Foundation has INVESTED funds in ShelbyHurst real estate developments (as well as made other DIRECT investments). All of the returns on these DIRECT investments go back to the ULF endowment, just as any other returns do, such as from our money managers. Then, those returns are added together with the endowment and result in the 5.5%, the 1.5%, and the .48% spending policy distributions that are budgeted on an annual basis. ALL of those spending policy distributions go to support the University's teaching and research missions.

REMEMBER, the only reason/predicate that has enabled us to make the significant EXPENDITURES that we have made in the past five years or so is that these expenditures ARE NOT distribution, but rather are INVESTMENTS. In order to use the endowment to make these investments, we need to channel all of the returns on those investments back to the endowment to support the spending policy.

We probably need to discuss these issues. I think that Jim does not fully appreciate the analytical model under which we have been operating. We have probably never explained it to him sufficiently.

BTW, the model that Mike and I are working on for the TIF reimbursements is to have the TIF payments serve to reduce the Foundation's past direct investments in various activities BUT NOT to have those payments categorized as a return on the Foundation's investments. We think that we can then transfer those payments into unrestricted Foundation funds to be budgeted by the President at his discretion. (I am still not sure if this works from a money-flow standpoint, but it is our objective and working hypothesis.)

Jim

From: Curtin,Michael J.
Sent: Tuesday, March 26, 2013 5:14 PM
To: Ramsey,James Richard
Subject: FW: 600 North Hurstbourne Permanent Loan Process
Sensitivity: Confidential

Jim: FYI

..........Mike

Michael J. Curtin
Vice President for Finance / CFO
University of Louisville

From: Neil Mitchell [mailto:NMitchell@NTSDEVCO.COM]
Sent: Tuesday, March 26, 2013 2:50 PM
To: Burt Deutsch (Bdeutsch@CORRADINO.com); Smith,Kathleen McDaniel; eglasscock@fbtlaw.com; Curtin,Michael J.; Tomlinson,Jason
Cc: Brian Lavin; Lewis Borders; Rosann Tafel; Neil Mitchell
Subject: FW: 600 North Hurstbourne Permanent Loan Process

Hey Everyone,

Attached are two terms sheets for the permanent loan financing on 600 N Hurstbourne. I think these two proposals represent the best terms from approximately 39 Capital Sources. Below is a summary from Grandbridge regarding the process we undertook to obtain the quotes. In order to compare the rates, we had the lenders provide an updated rate quote as of today (03/26/2013). Those quotes are as follows:
AIG -$17,000,000, 10 year term loan, fixed rate at 4.16%
AIG -$17,250,000, 15 year term loan, fixed rate at 4.34%
Goldman -$18,000,000, 10 Year term loan, fixed rate at 4.16%
Based upon the above, I would recommend that we strongly look at the AIG 15 year term loan. This would allow us to take the loan out past the current tenant lease terms.

Please review the attached proposals and provide comments or thoughts. We are poised to move forward with the financing based upon the feedback from the group.

Regards,

Neil A. Mitchell, Sr. Vice President / NTS Development Company
600 North Hustbourne Parkway, Suite 300 / Louisville, Ky. 40222
T. (502) 426-4800 Ext. 212 /nmitchell@ntsdevco.com

From: BMcChesney@gbrecap.com [mailto:BMcChesney@gbrecap.com]
Sent: Monday, March 25, 2013 4:54 PM
To: Neil Mitchell

Cc: RWhitty@gbrecap.com
Subject: 600 North Hurstbourne Permanent Loan Process

Neil: thanks very much for the opportunity to represent NTS and the University of Louisville Foundation ("Sponsor") to arrange permanent financing for 600 North Hurstbourne. We began the search late last summer with our network of institutional debt sources, primarily life insurance companies and CMBS platforms, with the charge to maximize loan proceeds on loan terms of 10-15 years, and amortization schedule of 20-30 years, with a loan structure providing flexibility to the Sponsor. As you know, life companies and CMBS groups are the primary sources of long term, nonrecourse, fixed rate financing for commercial (non-multifamily) properties, and each of these lender groups will be doing over $50 billion in commercial mortgage financing this year.

Although the real estate capital markets are 'healing' from the financial crisis and much more capital for commercial mortgages is available from life insurance companies and CMBS providers, we found that there were some common challenges/risk elements to overcome with the lender groups we contacted on this assignment, in no particular order:

- The property did not have a seasoned operating history to rely on for underwriting operating expenses, among other things;
- The property had not achieved stabilized occupancy during most of the period during our search;
- The presence of a ground lease (subordinate or not), caused many of the lenders to pass or offer very conservative quotes-not competitive;
- Many of the life insurance companies have over exposure in their portfolios to suburban office and consequently did not bid or offered loan quotes at very low proceeds levels (low LTV);
- For some of the larger life companies, the achievable loan amount was below their minimum desired loan size (typically $20 million), such as Mass Mutual and New York Life;
- Many of the active life company lenders will only look at lower leveraged transactions (i.e. 65% LTV) right now and were not able to provide competitive quotes;
- The fact that all of the leases will roll (lease terms expire) after 10 years or so was a risk factor that some of the lenders opted out on;

The presence of these factors, among other things, caused the search period to extend for several months, but after presenting the transaction to approximately 39 capital sources (25 insurance companies and 14 CMBS originators), we have narrowed down the search to the two most competitive quotes, from one life insurance company (AIG) and one CMBS originator (Goldman Sachs). Each lender has provided a term sheet, which is a more formal listing of proposed terms, but is NOT to be considered a final approval or commitment to lend. Please see the two term sheets attached:

Our experience with each of these lenders is extensive, and their intent is to proceed to committee for formal approval if they are the selected winning lender. Once the Sponsor selects a direction – which lender to proceed to final discussions with, we will assist with negotiation of final terms, proceed to signing an Application and closing. At your direction, we will have bids for third party reports (appraisal, environmental, property condition) completed right away with consultants acceptable to either lender, and have the winning consultants begin work on their reports while final negotiations proceed with the selected winning lender.

<u>AIG Asset Management</u>: Positives of the AIG quote are: interest rate lock up front (when the Application is signed), lower closing costs, less loan structure (such as fewer funded escrows during the loan term), 10 and 15 year loan term option, flexible cash management account requirement, and Grandbridge fully services the loan. The negative is mainly that their proposed loan amount is $17,000,000 to $17,250,000, less than the CMBS quote.

<u>Goldman Sachs</u>: Positives of the Goldman quote are: higher loan proceeds at $18,000,000 and a 30-year amortization schedule. The lender has taken this transaction through their pre-screening committee, which gives some comfort as to the probability of ultimate approval. The negatives (when compared to AIG) are: the interest rate is not locked until a day or two before loan closing, likely higher closing costs (mainly lender legal), more loan structure in terms of cash management account requirements and funded escrows, only a 10 year loan term option, and Grandbridge only partially services the loan.

Best Regards, Brian

GRANDBRIDGE
REAL ESTATE CAPITAL

Brian McChesney
Vice President
GRANDBRIDGE REAL ESTATE CAPITAL LLC
4938 Brownsboro Road, Suite 204

Louisville, KY 40222
Office: 502.589.1233, ext. 3
Fax: 502.589.1246
Mobile: 502.424.5710
bmcchesney@gbrecap.com
www.gbrecap.com

Exhibit 6

To: bdeutsch@corradino.com[bdeutsch@corradino.com]
Cc: Curtin,Michael J.[mjcurt01@exchange.louisville.edu]; Tomlinson,Jason[rjtoml01@exchange.louisville.edu]; dsaffer@stites.com[dsaffer@stites.com]
From: Smith,Kathleen McDaniel
Sent: Tue 9/11/2012 9:58:08 PM
Subject: RE: ULF Guaranties and $45 MM Investment Pool

Thanks for sharing. We need th look at the Hickman Camp fund to see if it could help out with the stadium guaranty. There could possibly some relief if athletics could help with it's capital. Don't know if it has enough, but it needs to help. K

Sent from my Samsung Galaxy Note™, an AT&T LTE smartphone

-------- Original message --------
Subject: ULF Guaranties and $45 MM Investment Pool
From: Burt Deutsch <Bdeutsch@CORRADINO.com>
To: "Smith,Kathleen McDaniel" <kimcda01@exchange.louisville.edu>
CC: ULF Guaranties and $45 MM Investment Pool

Mike, Jason, David, and I met on these issues for a couple of hours yesterday afternoon. I think we made good progress. Mike and Jason are going to recast the spreadsheet to put the various categories of guaranties and investments in closer analytical groupings.

Our goal is to move most of the investments/guaranties from the $45 MM pool to regular investments. There are also some anomalies that we are going to address. (We will review the necessity for continuing or revising the $45 MM pool for the future after we make our adjustments.)

First, I think it makes sense to divide items into direct Foundation initiatives (such as Cardinal Station, KYT, ShelbyHurst, and Nucleus) and "outside" initiatives.

So I see the outside guaranties as
  the residence halls ($48,495,000 in guaranties),
  the Medical Faculty Office Building ($3,500,000 per year in annual rent guaranties--even though we have this obligation until 2021 with a 3% annual rent increase in the guaranty, it only hits our obligations as the annual amount, not the total for the period),
  Papa John's Stadium ($65,760,000 MM,
  ULP (going to $20,5 MM), and
  some Greek houses ($960,311 in collective guaranties.
The total for these is $139,215,311. Takes your breath away, doesn't it.

In addition, we have some "outside" direct property acquisitions (I believe all are related to the soccer stadium development):
  World Pasta, $1,725,971 (I understand that we received some benefits for this expenditure that we may be able to recognize. We can review that.)
  Martco, $1,060,704.
  Equipment Depot, $1,597,388.
The total for these is $4,384,063.

And, a potential "outside" purchase of the Chevron property for $1,200,000.

We also have a $10 MM "outside" loan commitment to the Brown Cancer Center ($3 MM funded as of June 30, 2012).
We also have an investment in ACT. In my mind, any benefit from that investment might be considered not only a return on that investment but also on the loan to the JGBCC. Maybe not, but I relate them.

Finally, we have the "closing costs and accrued interest" for the Phoenix Place apartments of $48,958.

Then, we go to things that are directly under the control and initiative of the Foundation.

Direct real estate:
  Nucleus's First Building: $8,854,432 so far, going to $25 MM?
  Nucleus's old line of credit with National City: $4,120,000
  AAF/Cardinal Station Purchase: $8,192,000
                Build Out: $357,270
  KYT: $19,500,000 (initial purchase?)
     $ 8,293,427 (demo? and ?)
  ShelbyHurst Infrastructure: $12,923,571

Campus One Partnership: $ 5,676,260
The total for these is $84,062,528.

Investments in UofL-related companies:

ApoImmune:	$775,000
RhinoCyte	900,000
Intrepid	325,000
Gnarus	150,000
PGxL	400,000
Edumedics	650,000

The total for these is $3,200,000.

Issues:

Outside Loan Guaranties: There is very little we can do to affect the almost $140 MM in outside loan guaranties as they stand. We are addressing the present ULP situation. Nothing that I know of that we can do on the Medical Office Faculty Building. I don't know about the Papa John's Stadium guaranties and so don't know what we could do there. It could be that we are getting value in return. On the residence halls (almost $50 MM), we could, since they are in the name of the ULH, see if the Foundation should get some participation in the annual revenues. In any event, we should have a sheet on each of these guaranties where we present the value to the University of what the Foundation is doing. That information needs to be available for all to see what the Foundation does.

Outside Real Estate Acquisitions: We need to see how we will treat these. Are they investments-in-waiting? Will we get some return? Have we gotten some return. We just need to review these and put them in the proper category.

JGBCC: This looks more like an investment that also has programmatic benefits. We need to review this.

Direct Real Estate: All of this is an investment. We need to review the income-producing potential of ShelbyHurst and see what that shows. Then, we need to see what that could model for Nucleus and the Belknap Applied Research Park. Those last two developments also have a University programmatic purpose that enhances their value over and above any direct monetary return.

Our goal is to use the 600 North Building as a model and move it to a combination of direct equity (eventually all coming from the Foundation), probably 30% of value, and a non-recourse, normal real estate loan based on rental income and pro forma. That will be our strategy for each of our buildings as they achieve a full stabilized rental picture. We will also do that for Cardinal Station. That will enable us to record our return on our investment building by building. We will apply and allocate the land development costs to the buildings. We will also apply the appropriate business operations costs of Nucleus and ULDC to the buildings.

Company Investments: Clearly and easily investments. We will monitor and hope for positive returns, realizing that these are risks. We will apply and allocate the business operations of Metacyte to the investments as appropriate.

In addition, Mike is recording loans to Nucleus ($3,663,109), MetaCyte ($4,958,964), and ULDC ($300,000) for business operations. We need to review these costs carefully, especially requiring budgets for the coming fiscal year.

We need to see what Nucleus operations are related to the real estate (and move those costs over to real estate investments) and what are related to other initiatives. And, we need to see if we can afford to continue supporting those initiatives from the Foundation.

We need to carefully review MetaCyte and see what costs are related to the due diligence and other work for the companies in which we are investing. Then, we need to see what else MetaCyte is doing for what other companies and see if we can afford to continue supporting those initiatives from the Foundation.

Finally, we need to attribute the ULDC costs to various real estate investments.

Finally, Mike is recording certain amounts for unpaid and accrued interest on advances to Nucleus ($276,000 in interest), MetaCyte ($356,078), ULDC ($38,286), Cardinal Station build out ($102,313), ShelbyHurst ($1,562,265), KYT ($407,396), and the loan to JGBCC ($95,435). The direct entities accrued interest amounts to $2,743,264. While I understand why Mike did this. I think it is inappropriate under the framework of treating these all as investments. We do not accrue/record interest on our regular investments. We should not on these either. We should just recognize the returns on the investments as they are realized.

Exhibit 7

To: milton.pierson@louisville.edu
Subject: RE: Foundation's commitment to JGBCC

From: Donald Miller [mailto:Donaldmi@ulh.org]
Sent: Monday, March 07, 2011 1:02 PM
To: J. William Kingston; Milton Pierson
Subject: Fwd: Foundation's commitment to JGBCC

Very interesting email.

Donald M. Miller, M.D., Ph.D.
Director, James Graham Brown Cancer Center
University of Louisville
502-562-4790
donaldmi@ulh.org

>>> James R Ramsey 3/7/2011 12:54 PM >>>
Don,

Jane, Jenny, Jacque and I were part of an alumni trip (100 alumni) to the Galapagos Islands and Machu Picchu. A once-in-a-lifetime experience but would truly say "been there, done that" and would mark it off my list -- probably wouldn't go back. I was gone for 12 days. You may remember that I was out for a couple of days with my biopsy before that -- been trying to catch up, and had a quick trip to California this week.

Upon my return Kathleen Smith showed me the information she had put together on the Foundation's commitment to the James Graham Brown Cancer Center. I indicated to Kathleen that what she had written up was clearly not what we had committed to -- not a loan -- $1M this year, $2M next year, $3M the following year, and $4M the year after. I don't know if she has had the opportunity to follow back up with you but wanted to make sure you were aware.

Thanks. Let me know if there is anything else I can do.

Jim

Exhibit 8

From: Joe Gahlinger [mailto:jrgahl01@gwise.louisville.edu]
Sent: Monday, September 12, 2011 9:29 AM
Cc: Kramer, Michael D
Subject: Fwd: RE: President's Commitment to JGBCC

All,

This has been in the works for a number of weeks and is now nearing completion. I was shocked to find that the "loan" will be from UHI to ULRF. I had thought it was to be between ULF and ULRF.

First, a bit of background. Dr Ramsey made a $10 million commitment from the Foundation to the Brown Cancer Center (JGBCC) over a four year period beginning in FY11 - $1 million in FY11, $2 million FY12, $3 million FY13 and $4 million FY14 = $10 million. We setup a program U9019 for JGBCC in FY11 at the direction of Mike Curtin to house the funds as they were transferred and spent. When I raised the issue of the source of the funds from the Foundation, MJC said that Dr Ramsey intended to pull them from the UHI LOC he was authorized. I then asked whom was to be responsible for paying back the loan to ULF and the fun began. It has culminated in the two documents below.

My understanding of the relationship is as follows:

ULF -- loc --> UHI -- loc --> ULRF -- grant --> JGBCC

ULRF will payback the LOC (with interest) to UHI with proceeds from exits realized by ACT. ULRF has an option for 30% of ACT, which has not been exercised yet, but will at some point in the future.

Based on the discussion this morning between Anne, Larry and myself we would prefer to handle this with book entries rather than actually wiring cash between the various related parties. We will need to coordinate this with the accountants for UHI and ULRF so that everything get recorded and tracked properly.

Any comments or suggestions would be greatly appreciated.

Thanks,

Joe Gahlinger
Dir, Investment & Financial Mgmt
University of Louisville Foundation
v: (502) 852-8254
f: (502) 852-8228
jgahlinger@louisville.edu
>>> "Saffer, David" <dsaffer@stites.com> 9/8/11 14:13 >>>
Everyone: I have attached an initial draft of the Promissory Note given by UHI to the Foundation in the amount of $10,000,000 and an initial draft of the Grant Agreement between UHI and ULRF, using the template Angela and Glenn provided me. If you would, please review these documents and let me know of any comments or questions you may have. I am particularly interested in your thoughts on the rate of interest charged, the advance schedule and my definition of the event causing a required repayment by ULRF.

Thanks.

From: Michael J Curtin [mailto:michael.curtin@louisville.edu]
Sent: Thursday, September 08, 2011 9:15 AM
To: Saffer, David

Cc: Joe Gahlinger; Kathleen M Smith; Larry W Zink
Subject: RE: President's Commitment to JGBCC

Hi David: Please see the attached note and attachments. This is probably more information than you need but I suggest that you start with the Operating Agreement. Thanks!

.......Mike

>>> "Saffer, David" <dsaffer@stites.com> 9/7/2011 11:30 AM >>>
Mike: Do you have the documents that describe the ACT liquidation event? I would like to include a reference to that event in the documents for the loan/grant. Thanks.

From: Michael J Curtin [mailto:michael.curtin@louisville.edu]
Sent: Tuesday, September 06, 2011 4:25 PM
To: Joe Gahlinger
Cc: kathleen@louisville.edu; Larry W Zink; Saffer, David
Subject: President's Commitment to JGBCC

Joe: I spoke to Milton Pierson at the JGBCC on Friday and gave him a brief update. As we discussed, I asked him to prepare a projection of cash needs for the current fiscal year. He said that he would be happy to do this based on his best estimate of projected expenses for each quarter. During the conversation, I also explained to him the reasons why there has been a delay in transferring funds and he said that he understands and knows that we are good for the funds.

David Saffer and I have been exploring a mechanism for the UHI line of credit to be used to fund this initiative. David has also communicated with Angela Koshewa who is representing the ULRF. Conceptually I think that we are there. Once the documents are prepared we should be able to transfer the funds. Thanks!

........Mike

Saffer, David

From: Michael J Curtin <michael.curtin@louisville.edu>
Sent: Wednesday, August 17, 2011 1:46 PM
To: Kathleen M Smith; Angela D Koshewa; Saffer, David
Cc: Glenn D Bossmeyer; Katherine M Niehaus
Subject: RE: agreement between the ULRF and the ULF

HI David: The plan was to fund the commitment to the JGBCC from the Line of Credit approved by the UofL Foundation Board. The funds would come from the "New Ventures" bucket for Presidential initiatives. As such this needs to be a loan of sorts in that it will need to be repaid eventually, not by the Cancer Center but from the proceeds of a future liquidation event for ACT that would accrue to the ULRF. This was Dr. Ramsey vision initially.

.......Mike

>>> "Saffer, David" <dsaffer@stites.com> 8/17/2011 10:34 AM >>>
Mike: Will the moneys to fund this grant have to come from unrestricted funds of the Foundation or is this grant more in the nature of a loan? If it's the former don't we run into a problem?

From: Angela D Koshewa [mailto:angela.koshewa@louisville.edu]
Sent: Wednesday, August 17, 2011 10:32 AM
To: Kathleen M Smith; Saffer, David
Cc: Glenn D Bossmeyer; Katherine M Niehaus; Michael J Curtin
Subject: Re: agreement between the ULRF and the ULF

Kathleen, This could be accomplished by a grant from the ULF to ULRF, of the same nature as the original UL grants to MSPA for the funding of Passport. I will ask Katie to send Glenn those grant documents for possible use as a template.

thanks

Angela

Angela D. Koshewa
University Counsel
Office of University Counsel
206 Grawemeyer Hall
Louisville, KY 40292

502-852-6981 - Phone
502-852-5818 - Fax

>>> Kathleen M Smith 8/16/2011 6:08 PM >>>
Could you please give me the status of the agreement between the ULRF and the ULF to provide $3M to the Cancer Center. The President would like to send the fund to the cancer center ($1M for last year and $2M for this year), but we understand that Mike has asked you to work out an agreement to repay UHI from ULRF funds received by an liquidity event for ACT. There has been an inquiry about the funding from the Brown Foundation, and we would like to move on the payment as quickly as possible. Thanks. K

Exhibit 9

To: Smith,Kathleen McDaniel[kathleen.smith@louisville.edu]
From: Tomlinson,Jason
Sent: Thur 9/19/2013 8:17:13 PM
Importance: Normal
Subject: RE: Advanced Cancer Therapeutics Subscription Materials
Received: Thur 9/19/2013 8:17:14 PM

Gave may be a little strong but yes no equity position. Instead, they put $300K to match our $300K into our asset (MedCenter 3) and are now leasing additional space. However, the lease terms do not really provide for full reimbursement of our $300K over the initial term of the lease. This is one of those VYB and Ed went to Dr. Ramsey indicating we had to have to help out PGxl, etc. and once Mike agreed we should do it that pretty much sealed it. The only one that really asked a question was Burt.

From: Smith,Kathleen McDaniel
Sent: Thursday, September 19, 2013 3:01 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

We just gave it to them? No equity position?

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/19/2013 2:50 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

They don't. VYB's request was to use TIF funds as matching funds for what PGxl was spending for renovation and expansion in MedCenter 3.

From: Smith,Kathleen McDaniel
Sent: Thursday, September 19, 2013 2:44 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

How do the TIF proceeds get paid back?

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/19/2013 1:14 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

I had Mike Kramer check as well. We have invested $700K from the Foundation plus $300K from TIF proceeds to renovate space in MedCenter 3.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 10:26 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

Thanks. K

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/18/2013 6:52 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

You might be right but I only have $700K on my spreadsheet and I only see the two wires ($400K in 2011 and $300K 2/28/13) for backup. I will check with Kramer tomorrow as well to make sure I am not missing something.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 6:44 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

I thought it was at $1MM. Maybe an alternative was worked out but I thought $1MM was where we were before the remodel in MedCenter 3.

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/18/2013 6:39 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

I can check again but that reflects the last investment we made in the Spring. We did agree to provide $300K out of the TIF revenue to fund their expansion in MedCenter 3 but that wasn't an investment.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 6:31 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

I thought PGxL was larger. Is this correct.

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/18/2013 5:40 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

Then you might want what we have invested in each to-date for the background section.

ACT	$1,400,000
ApoVax	$1,000,000

Edumedics	$1,000,000
Intrepid Bioinformatics	$325,000
PGxl Laboraties	$700,000
RhinoCyte	$1,650,000

This might also help diminish the attention some because since we haven't made the newest investment yet, ACT is not even the largest investment. RhinoCyte is.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 5:19 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

Let's list them. The irony is ACT is the only one they have brought forward over the past 5 years. Bizarre.

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 09/18/2013 4:29 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Cc: "Beamer,Jake" <kjbeam01@louisville.edu>
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

My initial reaction is that this seems totally unnecessary which you already know. This is standard operating procedure for the Foundation and all of our investments in these companies. I'm taking Mike's place on five other Boards. In light of that, do you want to make the action more generic which would further diminish the attention being leveled at ACT? We could do that by indicating the President, or his designee, will serve on the Board of any start-up we invest in or we could list ACT among all of the one's where we currently have a seat on the Board (ACT, ApoVax, Edumedics, Intrepid Bioinformatics, PGxl Laboratories, and RhinoCyte). It seems to me that both would suggest that this is our normal practice.

If you do not think that argument helps any, what you have written works as is. I think it covers everything.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 3:20 PM
To: Tomlinson,Jason
Cc: Beamer,Jake
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

Please help me figure out how to say that. I want the action to the ULF on Friday to show what we have in the company. The loan is important because it gives them capital to use and we still incur a risk.

Here is a rough draft of the action:

The Chair recommends the President, or his designee, serve on the Board of Directors of Advanced Cancer Therapeutics, Inc. as representing the Foundation's capital investment in the company. The President's service is representational only and any distribution to board members from liquidity events, stock authorizations, dividend payments, or other company action to increase the worth of the investment will accrue to the UofL Foundation.

Please tinker with it as you see appropriate, but I need to put this nonsense to bed.

The background would show what our investment is and I will do something similar to the ULRF in November. This hopefully will satisfy the compliance gestapo. K

From: Tomlinson,Jason
Sent: Wednesday, September 18, 2013 3:08 PM
To: Smith,Kathleen McDaniel
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

As for interest in ACT, ULF is 7.16% and ULRF is 30%. The Foundation invested $1.4M in 2010 for its 7.16% and we have committed an additional $1.6M for a total of $3M. They are still calculating the table which will redefine everyone's interest. ULRF's 30% is from intellectual property. This does not count any of the loan money which we have funded $7M of the $10M committed. Of course, that is in the form of a loan so we do not get any shares there.

From: Smith,Kathleen McDaniel
Sent: Wednesday, September 18, 2013 2:59 PM
To: Tomlinson,Jason
Subject: RE: Advanced Cancer Therapeutics Subscription Materials

Yes, but the President is getting hassled by the compliance committee our of Research and David Barker about his having a conflict of interest. I want to take an action to the ULF on Friday that authorizes him to represent the UofL Foundation's interest in ACT. With this last investment, can you send me how much the ULF has invested and the ULRF as well. I will take same action to the ULRF in November. Dave Barker et al. are on a course of craziness. They are saying same for Don Miller and we do not want to stir up the hornet's nest around Don. We will have all kinds of fire and brimstone coming down on us. What they really need to do is show a conflict of interest among our Board of Trustee members. Our board members are significant investors. K

From: Tomlinson,Jason
Sent: Wednesday, September 18, 2013 2:45 PM
To: Smith,Kathleen McDaniel
Subject: FW: Advanced Cancer Therapeutics Subscription Materials
Importance: High

Kathleen,

Are we reading to fund our next investment in ACT? They did come, present to the EG and we agreed to fund the $1.6M but I wanted to make sure I wasn't missing any outside conversation before sending Dr. Ramsey the recommendation.

Thanks…Jason

From: Seiffert, James [mailto:JSeiffert@stites.com]
Sent: Wednesday, September 18, 2013 12:07 PM
To: Tomlinson,Jason
Subject: FW: Advanced Cancer Therapeutics Subscription Materials
Importance: High

Jason, good afternoon. Could you give me an idea where the Foundation stands on funding its $1.6 million investment in ACT. I sent out an email about 10 days to two weeks ago to the EG and the only person I heard back from was Burt, who was in favor of the investment. I believe the group agreed to fund it at one of our past meetings. Let me know how you'd like to proceed. Thanks, Jim

---

From: Strench, William [mailto:bstrench@fbtlaw.com]
Sent: Monday, September 16, 2013 6:02 PM
To: Seiffert, James
Subject: FW: Advanced Cancer Therapeutics Subscription Materials
Importance: High

Jim,

Do you have an ETA on the funding?

Thanks,

Bill

From: Strench, William
Sent: Wednesday, September 04, 2013 9:26 AM
To: 'Seiffert, James'
Subject: Advanced Cancer Therapeutics Subscription Materials
Importance: High

Jim,

Attached are the subscription materials which also include wiring instructions.

-Bill

William G. Strench
Attorney at Law | **Frost Brown Todd LLC**

400 West Market Street | 32nd Floor | Louisville, KY 40202-3363
502.568.0207 Direct | 502.589.5400 Main | 502.581.1087 Fax
wstrench@fbtlaw.com | www.frostbrowntodd.com

Exhibit 10

To: 'Glasscock, Ed'[eglasscock@fbtlaw.com]
From: Smith,Kathleen McDaniel
Sent: Wed 12/18/2013 9:05:20 PM
Subject: RE: TNG--preliminary and advisory--attorney client privilege

Really, it's up to you. The ULF Entrepreneurial Group has already made its decision that it would invest $250,000 and would be last in for another $250,000 if it was needed by the firm. Dale is in with the Yearling Fund already. Rather than being a direct investor, on the condition that you want to invest and feel comfortable with the investment, I would talk with Dale to see if he would let you invest through the Yearling Fund so that any investment by you would be protected from ORR by the proprietary structure of the Yearling Fund. But, I would negotiate with Dale to make sure he would not charge you a fee for doing this because ULF would not have invested in the first place if you had not supported the direction to invest. As you recall, others thought the intellectual capital did not come from the faculty of the University. But, we were persuasive to help the group see that the company was spawned by our students who received great acclaim for the business plan and it would have been hypocritical if we did not recognize their success, the efficiency of the cost of goods sold (down from $15/vaccine administration to $1.25) and the leadership of Phoebe as Executive Chair. So, this is a long note that says if you want to do this, do it but get the protection of the Yearling Fund. Kathleen

---

From: Glasscock, Ed [mailto:eglasscock@fbtlaw.com]
Sent: Wednesday, December 18, 2013 3:40 PM
To: Smith,Kathleen McDaniel
Subject: TNG

Kathleen,

Dale Boden called me and wants me to invest $50,000 in TNG . I told him that I could not invest without your approval because of my conflict due to my involvement with the Foundation, etc.

What are your thoughts?

Ed

C. Edward Glasscock
Chairman Emeritus | **Frost Brown Todd LLC**

400 West Market Street | 32nd Floor | Louisville, KY 40202-3363
502.568.0230 Direct | 502.589.5400 Main | 502.581.1087 Fax
eglasscock@fbtlaw.com | www.frostbrowntodd.com

Exhibit 11

advanced
cancer therapeutics

June 29, 2010

U of L Foundation
Attn: Kathleen McDaniel Smith
Chief of Staff & Executive Director of Boards and Commissions
Office of the President
Grawemeyer Hall
University of Louisville
Louisville, KY 40292

Dear Ms. Smith:

The purpose of this letter is to inform the U of L Foundation that it is Advanced Cancer Therapeutics' (ACT) intention to become a tenant in one of the new Nucleus buildings that are scheduled to be built in the Haymarket location in Louisville, Kentucky, during the near future (e.g., 2011 – 2012 time frame).

While the specific terms and conditions of becoming a tenant have not currently been discussed or agreed upon between ACT and Nucleus, ACT agrees to use commercially reasonable efforts to work in good faith with Nucleus to finalize such business terms under commercially reasonable terms and conditions.

ACT's intention to become a tenant in one of the new Nucleus buildings is also contingent upon U of L Foundation's commitment to become an investor of ACT under the terms and conditions as described in ACT's existing private placement memorandum, which has already been provided to you through Mr. Jim Seiffert of Stites & Harbison, PLLC.

Should you have any questions regarding this letter, please contact me at (502) 345-8911.

Sincerely,

Randall B. Riggs
President & CEO

Exhibit 12

To: Smith,Kathleen McDaniel[kimcda01@exchange.louisville.edu]
From: Ramsey,James Richard
Sent: Mon 4/29/2013 9:57:54 AM
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

great

From: Smith,Kathleen McDaniel
Sent: Friday, April 26, 2013 11:46 AM
To: Ramsey,James Richard
Subject: FW: New Lease Proposal for Quills Coffee at Nucleus Center

FYI. ACT is back on track for moving into Nucleus. K

From: Vickie Yates Brown [mailto:vybrown@nucleusky.com]
Sent: Friday, April 26, 2013 10:59 AM
To: Smith,Kathleen McDaniel
Cc: Curtin,Michael J.; lborders@NTSDEVCO.COM; Bdeutsch@CORRADINO.com
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

This is great. Thank you for your kind assistance, Kathleen.

From: Smith,Kathleen McDaniel [mailto:kathleen.smith@louisville.edu]
Sent: Friday, April 26, 2013 10:45 AM
To: Vickie Yates Brown
Cc: Curtin,Michael J.; 'lborders@NTSDEVCO.COM'; Burt Deutsch (Bdeutsch@CORRADINO.com)
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

Vickie, I support Quills too.

Just finished my conversation with Randy Riggs. He is committed to moving into your new building and understands the lease rent will be more expensive. He is currently in a lease till October. I explained we could help with transition by forgoing rent on the front end. He will need to work with you and NTS on the right financing and understands until the lease is consummated he does not need to come back to the entrepreneurial group. We are eager to give him our money, but he needs to be as equally eager to get his lease signed for your building. I do not know the details on space but he will be reaching out to NTS today. He also said that he never meant to imply they were not going to move into Nucleus. It has always been their intent as he said in his letter. Please let me know if you or NTS does not hear from him soon. I will write an update inquiry to him to follow up. He knows we totally support the research and great work that ACT is doing. Kathleen

---

From: Vickie Yates Brown [mailto:vybrown@nucleusky.com]
Sent: Friday, April 26, 2013 10:26 AM
To: Burt Deutsch
Cc: Tony Fluhr; Smith,Kathleen McDaniel; Curtin,Michael J.; Lewis Borders; Ed Glasscock
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

Tnx

From: Burt Deutsch [mailto:Bdeutsch@CORRADINO.com]
Sent: Friday, April 26, 2013 10:23 AM
To: Vickie Yates Brown
Cc: Tony Fluhr; Kathleen McDaniel Smith; Michael J. Curtin; Lewis Borders; Ed Glasscock
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

Sorry for the delay. I have been otherwise occupied.

I am OK with the proposal. Quills is a local company. Already located near the Belknap campus. Apparently, Dunkin Donuts is a no-go. So this would be a good addition to the amenities for the tenants. I am not worried about the financials.

From: Vickie Yates Brown [mailto:vybrown@nucleusky.com]
Sent: Friday, April 26, 2013 8:07 AM

To: Glasscock, Ed
Cc: Tony Fluhr; Burt Deutsch; Kathleen McDaniel Smith; Michael J. Curtin; Lewis Borders
Subject: Re: New Lease Proposal for Quills Coffee at Nucleus Center

Just checking to see if everyone else is ok to proceed. Tnx.

Sent from my iPhone
On Apr 23, 2013, at 11:36 AM, "Glasscock, Ed" <eglasscock@fbtlaw.com> wrote:

Thank you. I understand but I was concerned about spending time with a prospective tenant that doesn't have the financial resources to complete the deal and I am not familiar with Quills Coffee.
Ed

C. Edward Glasscock
Chairman Emeritus | **Frost Brown Todd LLC**
400 West Market Street | 32nd Floor | Louisville, KY 40202-3363
502.568.0230 Direct | 502.589.5400 Main | 502.581.1087 Fax
eglasscock@fbtlaw.com | www.frostbrowntodd.com

From: Tony Fluhr [mailto:TFluhr@NTSDEVCO.COM]
Sent: Tuesday, April 23, 2013 11:08 AM
To: Glasscock, Ed; 'Vickie Yates Brown'; Burt J. Deutsch JD; Kathleen McDaniel Smith; Michael J. Curtin
Cc: Lewis Borders
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

Have not yet seen financials, but certainly will at the appropriate time. Note this Proposal is subject to Landlord's review and approval of Tenant's financial statements. Thanks.

Tony Fluhr, CCIM
NTS Development Company
600 North Hurstbourne Parkway | Suite 300
Louisville, KY 40222
o: 502-426-4800 ext. 120

From: Glasscock, Ed [mailto:eglasscock@fbtlaw.com]
Sent: Tuesday, April 23, 2013 11:03 AM
To: 'Vickie Yates Brown'; Burt J. Deutsch JD; Kathleen McDaniel Smith; Michael J. Curtin
Cc: Lewis Borders; Tony Fluhr
Subject: RE: New Lease Proposal for Quills Coffee at Nucleus Center

I approve. I assume Tony has done the due diligence with respect to the financial resources of Quills.
Ed

C. Edward Glasscock
Chairman Emeritus | **Frost Brown Todd LLC**
400 West Market Street | 32nd Floor | Louisville, KY 40202-3363
502.568.0230 Direct | 502.589.5400 Main | 502.581.1087 Fax
eglasscock@fbtlaw.com | www.frostbrowntodd.com

From: Vickie Yates Brown [mailto:vybrown@nucleusky.com]
Sent: Tuesday, April 23, 2013 10:57 AM
To: Burt J. Deutsch JD; Kathleen McDaniel Smith; Glasscock, Ed; Michael J. Curtin
Cc: C. Lewis Borders; Tony Fluhr
Subject: Fwd: New Lease Proposal for Quills Coffee at Nucleus Center

Dear All:
Pls review below email proposal from Tony Fluhr at NTS and let me know if you are ok with sending it to Quills. Tnx
Vickie

Sent from my iPhone
Begin forwarded message:

From: "Bruce Traughber" <btraughber@nucleusky.com>
Date: April 19, 2013, 1:20:42 PM CDT
To: <Vybrown@nucleusky.com>
Subject: FW: New Lease Proposal for Quills Coffee at Nucleus Center

Please review.

From: Tony Fluhr [mailto:TFluhr@NTSDEVCO.COM]
Sent: Tuesday, April 16, 2013 1:45 PM
To: Bruce Traughber
Cc: Lewis Borders
Subject: FW: New Lease Proposal for Quills Coffee at Nucleus Center

Bruce,

Please see the below email from Nathan Quillo (owner of "Quills Coffee").

They've outlined their concerns below, and accordingly we've put together a Revised Proposal with our suggestions (our changes against our original proposal). Hope to discuss this along with DD at 2pm.

Thanks,

Tony Fluhr, CCIM
NTS Development Company
600 North Hurstbourne Parkway | Suite 300
Louisville, KY 40222
o: 502-426-4800 ext. 120

From: Nathan Quillo [mailto:nathan@quillscoffee.com]
Sent: Tuesday, April 16, 2013 9:32 AM
To: Tony Fluhr
Subject: Re: New Lease Proposal for Quills Coffee at Nucleus Center

Tony,

We truly appreciate that the Nucleus Center project is interested in working with Quills Coffee. Being a local company, it's very encouraging to know that groups like Nucleus value our brand. After reviewing the project we believe the space has tremendous potential, but we see the full potential as a few years down the road. However, we are still open to discussing our involvement in the project.

For Quills Coffee to go forward and find success in this location, here are some things we feel we would need:

1. Buildout allowance of $50 per sq ft
2. First year rent free (or some version of an extreme graduate lease). Since this is a new building, still recruiting tenants, we are very cautious about the number of transactions we can realistically turn per day for the first 12-24 months.
3. Exclusive right to coffee served in the conference room
4. Free parking from 6:00-11:00AM to accommodate customers that want to quickly grab-and-go on their way to work in the surrounding area
5. Signage on the building visible from I-65 (We're fine with changing the signage once another building goes up that blocks the view from I-65. At that time we'd scale down to more appropriate signage)
6. A-frame sidewalk sign on Market St.

Thanks again for the opportunity to discuss this project. It's exciting to see Louisville continue to grow.

Best Regards,

Nathan

NATHAN QUILLO
QUILLS COFFEE | OWNER
930 BAXTER AVE | LOUISVILLE
KY | 40204
OFFICE: 502.742.6129
SKYPE: NQUILLO
TWITTER: N8QUILLS
WWW.QUILLSCOFFEE.COM

On Feb 20, 2013, at 6:37 PM, Tony Fluhr <TFluhr@NTSDEVCO.COM> wrote:

Nathan:

On behalf of the Landlord for Nucleus Center, I'm please to forward the attached New Lease Proposal for Quills Coffee on the First Floor of the Building.

Nucleus and the University are excited about your interest in the new building, and look forward to working with you guys at this potential new location.

I'll call you tomorrow to discuss this in more detail and provide further clarity to the Proposal. Kindly confirm receipt of the attachments.

Best regards,

Tony Fluhr, CCIM

Director – Commercial Leasing
NTS Development Company
600 North Hurstbourne Parkway | Suite 300
Louisville, KY 40222
o: 502-426-4800 ext. 120
c: 502-648-2172
f: 502-426-4994
tfluhr@ntsdevco.com

<New Lease Proposal - Quills Coffee (2-13).docx><Exhibit A (Quills Coffee).pdf>

Exhibit 13

To: Burt Deutsch

From: Cambridge Associates

Date: November, 2012

Re: Spending Analysis: Impact on the ULF Endowment

Summary and Conclusion

In the following pages, we hope to describe the impact that ULF's spending policy could have on the ULF endowment over the coming years. Although it is possible that the Foundation may be able to support its current level of spending without reducing the corpus of the endowment, we believe it is incumbent on us as your investment advisors to lay bare in the plainest terms that the current level of net draws (i.e., spending minus endowment gifts) is likely unsustainable. Unless meaningful and consistent gifts flow back into the investment pool, we strongly advise adjusting the spending policy.

As you know, we have expressed concern about ULF's spending policy since the Foundation began increasing its spending rate, and adjusting its spending "rule". Happily for the Foundation, in the 22 years since inception the endowment has achieved investment returns of 10.3% compounded. It is pure coincidence that the inflation rate since inception has been 2.8%, which means that the endowment **could have supported** a 10.3% - 2.8%, or 7.5%, spending rate since inception and maintained its purchasing power. However, as we will discuss further below, the high returns that ULF has been able to achieve in the past cannot be counted on in the future. In addition, we understand from the Finance Office that the inflow of gifts to the endowment has not been material. **If this continues,** the maintenance of the current real value of the endowment – not to mention growth of the endowment – is left solely to endowment performance.

Although ULF has been successful in managing its endowment (it has added 180bps since inception versus its policy benchmark) and while we have every hope of continuing outperformance, the *primary* driver of the *absolute* level of ULF's endowment performance will be the capital markets. Arguably, the last five years have been worse (investment returns of 2% annualized) than we would expect, but most observers expect the next 10 years to offer subdued returns compared to history. **Even if we achieve our CA "modeled expected real return" of 6.3%**, which may be a challenge, there would need to be a net inflow of 1.2% worth of gifts to allow us to break even, (which means preserving purchasing power over time). Given our druthers, we would rather assume a real return of less than 6.3%, say 5.5% [1], to provide a cushion between the expected return and our assumed results. If ULF were to achieve an annualized 5.5% real return over the next several years, it would need to have a "net of gifts spending rate" of 5.5% in order to have a reasonable shot at preserving the endowment's purchasing power. However, even in that scenario, we would be inclined to cap the spending to allow the endowment to grow as gifts flow in.

[1] You more than double your chances of hitting a 5.5% target vs. hitting a 7.5% target (probability: 63% vs. 30%).

In the following pages we provide some analytics designed to show what could happen to the endowment and the spending, given a few different spending policies and given the range of return expectations that we model for ULF's current asset allocation. You will note that some of the outcomes for the "high spending policy, low returns" scenarios are quite bad. For in the end, you have to "earn what you spend" whether it be from investment returns, from gifts, or a combination thereof. Our philosophy is to be conservative in our assumptions; if we beat them and the endowment grows quickly, that's a nice problem to have. Please note that even the 5.5% spending rate is at the high end of what endowments in general spend, so we are not suggesting to put ULF on a diet fit for Greece or Spain. We are, however, encouraging you to take a hard look at what ULF's current spending policy and rate could do and consider an adjustment.

Key Assumptions:

It is very important to note that ULF's current spending policy has two rules which could result in the actual spending rate being greater than the policy rate of 7.48%. These rules are (1) selecting the two highest of the last three years' market values when calculating the dollar value of spending; and (2) there is a "floor" on endowment spending of last year's spending (i.e., all units get at least what they got from the endowment last year). **We are not able to reflect the best 2 out of 3 approach in the modeling in (1) but we do reflect the practice of the 'floor' in our analysis.** As the analysis will show, given the high level of policy spending, it is not a huge stretch to imagine that ULF could be drawing as much as 9-10% from the endowment due to these two rules.

Spending: We examine four different spending policies in our analysis.

(1)ULF's current spending rate of 7.48% with a floor of prior year's distributions to the University [2]

(2) ULF's current spending rate of 7.48% with same floor + $12.5m annual gifts (gift amount necessary to break even, thus providing the 1.2% difference between spend and expected real return)

(3) An alternate 5.5% spending rate[3]

(4) ULF's current spending rate of 7.48% with same floor + $17.8m annual gifts (gifts necessary to 'match' the endowment profile of a 5.5% spending policy[4])

---

[2] ULF's current spending rate is a total draw of 7.48% of the endowment market value, comprised of Distribution to Units/Typical Spending of 5.5% + the additional draws for the Advancement Office of 1.5% and Presidential Initiatives of 0.48%. *Note: For modeling purposes, we have assumed that there are no other additional withdrawals from the endowment outside of these three categories.*

[3]Typical spending rate for college and university endowments is in the 4-5.5% range. Taking the higher end of this range also matches a more conservative real return target of 5.5%.

[4] The fourth analysis is aimed at answering the question: If ULF continued current spending practices, how much additional gift contribution to the endowment would be necessary in order to offset the additional spending *and* provide a similar endowment profile as for the 5.5% spending policy. For modeling purposes, the annual capital inflows start at $17.8m and are grown by inflation through the simulation. The gifts provided in the 2nd policy were also grown by inflation.

Asset Allocation: This analysis uses ULF's long-term asset allocation policy targets, as adopted at the June 2012 Finance Committee meeting (see page 11).

Long-Term Investment Pool (LTIP): Consistent with best practice, we have defined the LTIP as the permanent capital invested for the long term and therefore, have not included shorter term funds and/or assets such as the ULF line of credit, temporary capital or operating reserves. The LTIP, therefore, reflects the Total Pool value, rather than the Total Assets value as defined on investment performance reports.

Market Conditions: This analysis uses Cambridge's long-term equilibrium asset class assumptions. These assumptions are independent of current valuations, targeted toward a generic 25+ year time horizon and with a risk premium between global bonds and global stocks, and reasonably represents long-term expectations for capital markets (see page 12).

Model Output:

Real Market Value and Spending:

Page 6 displays the real LTIP market value and spending projections over the next 25 years for each of the four spending policies. Of the four policies modeled, the first (ULF's current spending) has the lowest projected real market value after 25 years ($298m). It also has the lowest real spending value ($34m). This is illustrated by the **declining blue lines** in the graphs.

Note that the 2nd policy (meant to provide a 'break even' amount of $12.5m in gifts to maintain purchasing power) maintains a $663m market value after 25 years, evidenced by the **horizontal green line** in the real market value graph.

The **orange (alternate spend 5.5%)** and **brown (current spend +$17.8m)** policies project **growing** real market values of $767m and $789m respectively, while also growing real spending, as illustrated by the **upward** sloping line graphs at the top of the page.

Takeaway: Current spending of 7.48% with a floor is likely to erode the endowment over time. Consider either reducing spending to an alternate 5.5% rate without the floor, or provide certainty in substantial and sustained annual gifts (grown with inflation), forever.

Real Market Value and Purchasing Power*:*

Pages 7 and 8 examine the range of projected real market values (colored graphs) and the chances of maintaining purchasing power (probability chart). Taking the graphs on page 7 first, these show the range of real markets values over time. Of note, there is a 5% chance that at the current spending rate the endowment would cease to exist at "Year 18" **(blue graph).** The colored range between $52m-$555m means that you have a 50% chance of achieving a real market value within this range 25 years from now. This compares to a 'break even' range of $447m-$940m **(green graph).**

The **orange (alternate spend 5.5%)** and the **brown (current spend+ $17.8m)** have similar projected market value ranges over time but the orange is slightly better as evidenced by the higher upside potential.

Turning to the probabilities chart on page 8, we provide the chances of failure to maintain purchasing power for each of the 4 options. Unsurprisingly, ULF's current spending has the highest probability of failing to maintain purchasing power. Over any 25 year period[5], there is an **86% chance of failing to maintain purchasing power.** As expected, the 2nd policy provides a 'break even' probability of around 50%, while the 3rd and 4th policies lower probabilities to 38% and 40%, respectively.

Takeaway: At ULF's current spending rate, without meaningful and sustained gifts, **there is a non-trivial chance that the endowment could cease to exist within the next 20 years.** Even with considerable and sustained gifts to the endowment, a 5.5% spending policy has the best chance of maintaining purchasing power and even provides slightly more upside potential in market value.

Risk of Endowment Decline:

Page 9 examines the chance of real market value decline (defined as -25%) and then not recovering. Unsurprisingly, the current spending practice has the highest chance of a market value decline at 77% over a 25 year period. This compares to a 34% chance for the 2nd 'break even' policy a 23% for the 4th policy of current spend +$17.8 in gifts, and a 21% chance for the alternate 5.5 spending rate.

The analysis goes further to say, assuming the decline happens, what are the chances that we can't recover?[6](right side of page). Notably, under current spending practice, there is a 96% chance that ULF would NOT recover. This probability lowers for the policies where gifts flow into the endowment **(green +brown),** while the best option is the lower 5.5 spending rate in **orange.**

Takeaway: If bad things happen in capital markets, current spending practices will leave almost no chance for endowment recovery in subsequent years. In the case that gifts are contributed (both $12.5m and $17.8) annually, grown with inflation and continued in perpetuity, then the chances of recovery do improve. **However, this is where a model can only take us so far. If markets decline, common sense tells us that so will gifts!** Any future market downturns are likely to also coincide with periods of economic stress which will further depress donations, gifts and any other source of contribution to the endowment.

---

[5] Over *any* 25 year period could be Years 1-25, Years 5-30, Years 10-35 etc.

[6] For example, if a 25% decline in real market value occurs in a specific 25 year period, what is the probability of recovery in the following 25 year period?

Extreme Investment Performance- Impact on Spending:

Page 10 highlights the effect of the floor on current spending. From top to bottom we consider three scenarios:

1) Equilibrium Conditions
2) Poor Investment Performance
3) Strong Investment Performance

Drawing your attention to the boxed **blue figures**, the current ULF floor is being activated 75% of the time in equilibrium conditions, 89% in poor periods and still 61% of the time during strong investment performance periods. **The floor keeps the spending artificially high relative to the growth of the endowment's market value.** This is also evidenced by the negative 'Real Growth' rate and higher 'Effective Payout' rates for spending. Even in equilibrium periods, ULF is effectively spending 8.8%, not the official spending policy of 7.48%. For example, in periods of poor performance, the impact of the floor is much higher with an effective payout rate of 10.6% over 3 years, and 9.7% over 1 year. Even in periods of strong investment performance, the floor is activated with enough frequency to imply a negative real growth rate in spending (-1.7%).

The alternate 5.5% spending rate (figures in **orange**) again has the best outcomes in all three performance scenarios. In equilibrium conditions you have a modest real growth in spending +0.6% and an effective payout rate close to your spending policy (5.4%). In strong performance periods you have the highest real growth rate in spending of 6.9%.

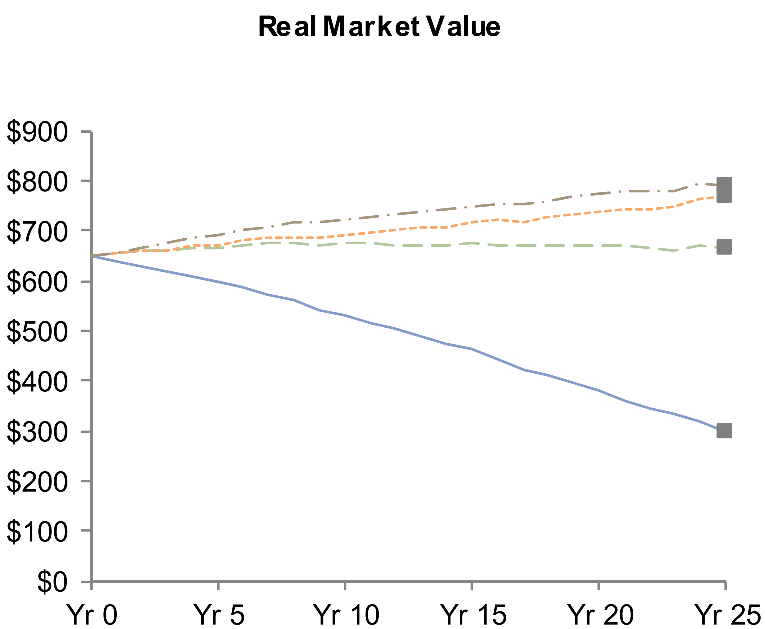
The policies that provide for additional gifts (figures in **green** and **brown**) are less drastic than under the current spending practice, but still, neither are as comforting as those provided by the 5.5% spending policy.

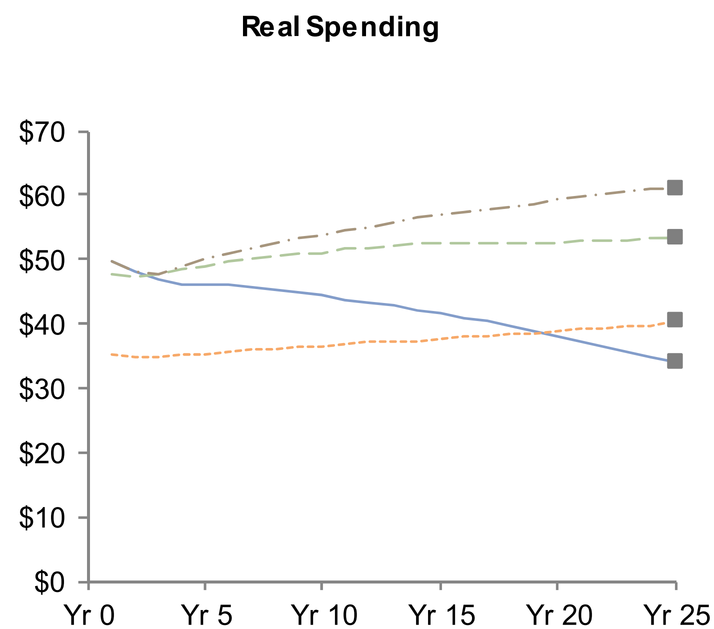
Takeaway: Under all 'what if' market scenarios, the impact of the current spending practice further compromises the endowment and spending, particularly if markets performance poorly.

Concluding thoughts:

We fully recognize that shifting to a 5.5% spending rate is easier said than done. We know of several college and university foundations who are also recognizing the risk implied in their higher spending policies. In reality, when faced with the prospect of cutting spending, most institutions find it difficult to follow spending policies and reduce the draw on the endowment. In practice, some then either introduce a floor (as ULF has done) or go ahead and allow for a spending increase but at a slower rate than previous years. Nevertheless, we caution against using either as a longer term solution. Such a strategy can establish a path towards unsustainable spending practices.

Baseline Expectation: Real Spending and Market Values

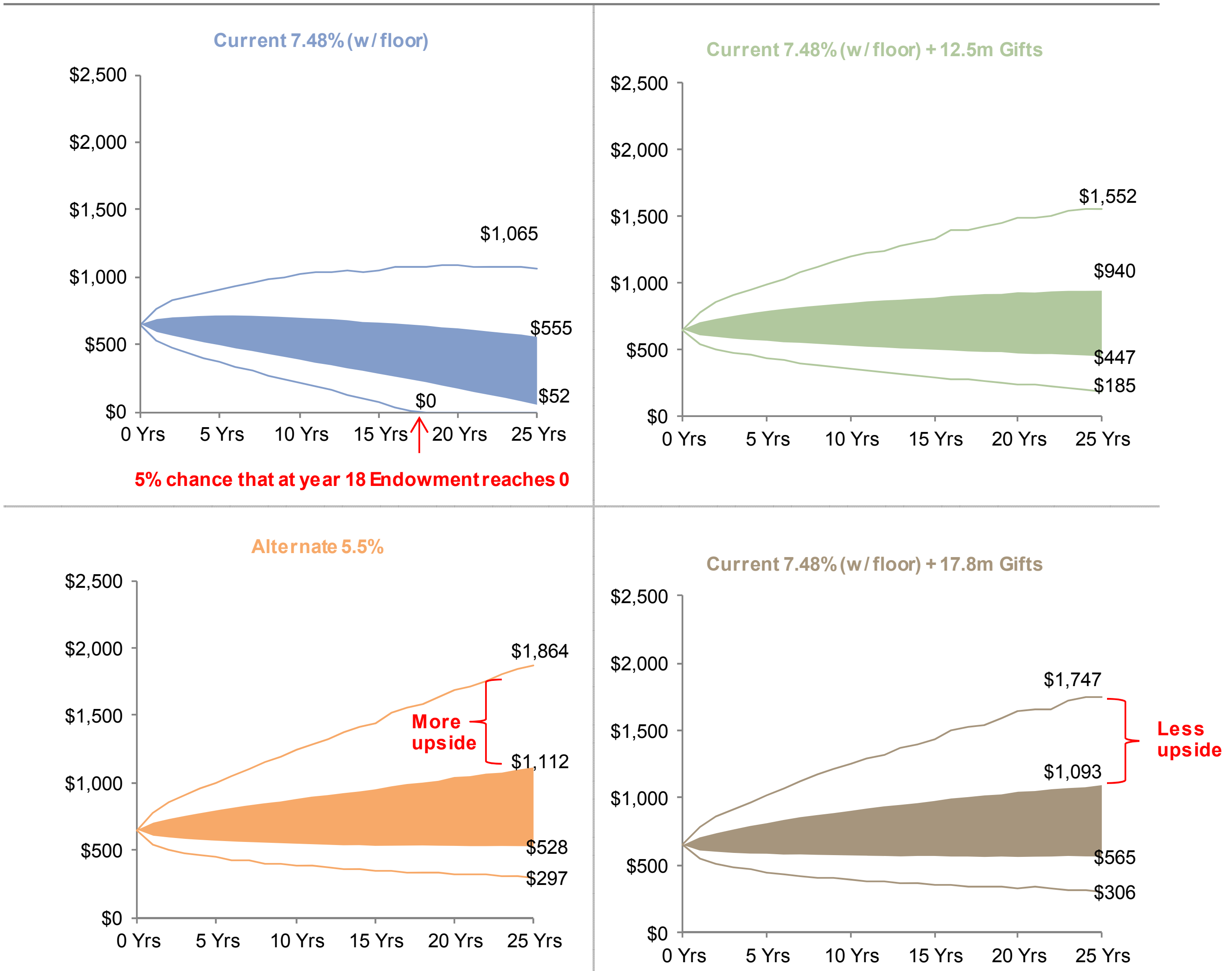




		Year 5	Year 10	Year 15	Year 20	Year 25
R. Mkt. Value	Current 7.48% (w / floor)	$596	$532	$461	$378	$298
	Current 7.48% (w / floor) + 12.5m Gifts	$665	$674	$673	$669	$663
	Alternate 5.5%	$671	$692	$716	$736	$767
	Current 7.48% (w / floor) + 17.8m Gifts	$688	$724	$749	$774	$789
Real Spending	Current 7.48% (w / floor)	$46	$44	$42	$38	$34
	Current 7.48% (w / floor) + 12.5m Gifts	$49	$51	$52	$53	$53
	Alternate 5.5%	$35	$36	$38	$39	$40
	Current 7.48% (w / floor) + 17.8m Gifts	$50	$54	$57	$59	$61

Range of Expectations: Real Market Value

Expected Range[1] of Real Market Values



[1] Range includes 50% of the distribution (25th to 75th percentile)

Range of Expectations: Real Market Value

Probability of Failing to Maintain Purchasing Power

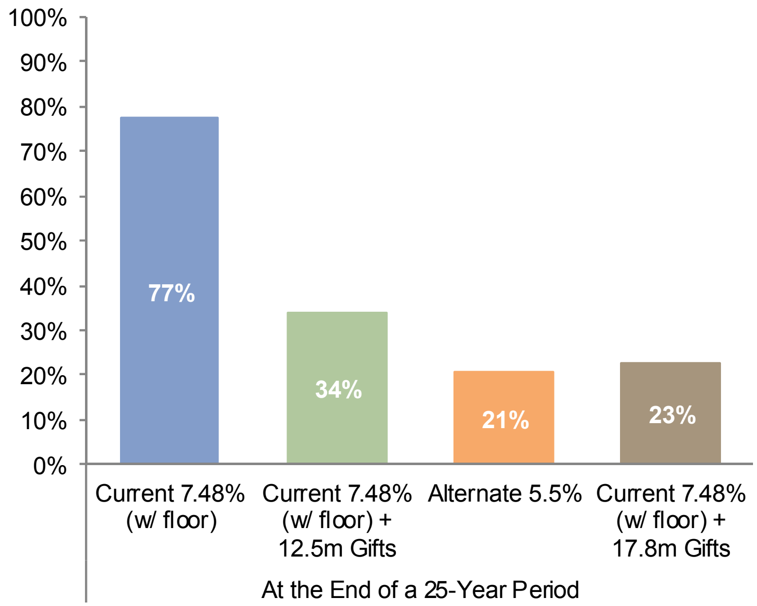
	5 Years	10 Years	15 Years	20 Years	25 Years
Current 7.48% (w / floor)	74%	79%	82%	84%	86%
Current 7.48% (w / floor) + 12.5m Gifts	51%	51%	51%	51%	51%
Alternate 5.5%	45%	42%	40%	39%	38%
Current 7.48% (w / floor) + 17.8m Gifts	46%	44%	42%	41%	40%

Real Market Value Shortfall: Risk of Declining and of Not Recovering

How Often do Declines Happen?

Probability of a Decline of More Than -25%

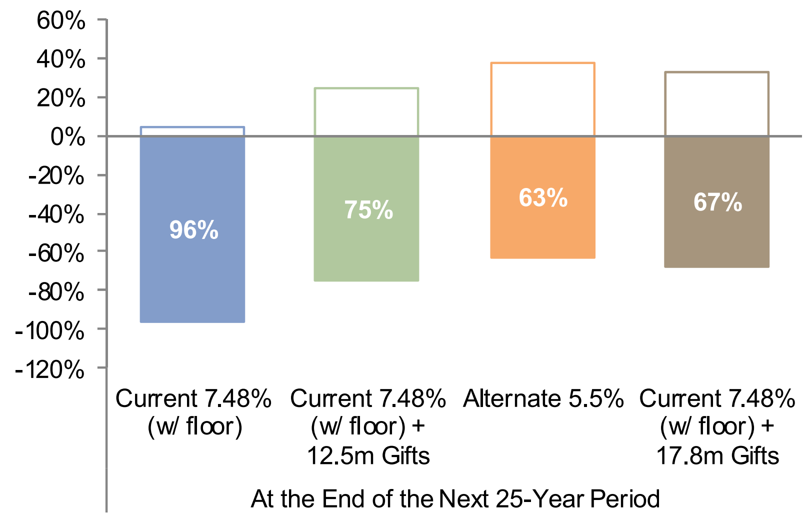
	at the END of the period				
	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr
Current 7.48% (w / floor)	44%	60%	68%	73%	77%
Current 7.48% (w / floor) + 12.5m Gifts	17%	26%	30%	32%	34%
Alternate 5.5%	10%	16%	18%	20%	21%
Current 7.48% (w / floor) + 17.8m Gifts	13%	19%	22%	22%	23%



How Quickly Can I Recover?

After a Decline of More Than -25% During a 25-Year Period, the Probability of Not Recovering…

	at the END of the next period				
	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr
Current 7.48% (w / floor)	98%	96%	95%	95%	96%
Current 7.48% (w / floor) + 12.5m Gifts	93%	86%	81%	77%	75%
Alternate 5.5%	90%	79%	72%	67%	63%
Current 7.48% (w / floor) + 17.8m Gifts	91%	81%	74%	70%	67%



Spending Profile: Extreme Investment Performance

Spending Profile: Equilibrium (All Conditions)

		Current 7.48% (w / floor)	Current 7.48% (w / floor) + 12.5m Gifts	Alternate 5.5%	Current 7.48% (w / floor) + 17.8m Gifts
Occurrence (% of Time)	Floor	75	59	---	54
Median of Distribution	Real Growth	-2.9%	-2.9%	0.6%	-2.9%
	Effective Payout	8.8%	7.8%	5.4%	7.6%

Spending Profile: Poor Investment Performance[1]

		Current 7.48% (w / floor)	Current 7.48% (w / floor) + 12.5m Gifts	Alternate 5.5%	Current 7.48% (w / floor) + 17.8m Gifts
Occurrence (% of Time)	Floor	89	79	---	75
Over 1 Year	Real Growth	-2.9%	-2.9%	-5.1%	-2.9%
	Effective Payout	9.7%	8.5%	5.7%	8.3%
Over 3 Years	Real Growth	-2.9%	-2.9%	-4.9%	-2.9%
	Effective Payout	10.6%	9.0%	5.6%	8.7%

Spending Profile: Strong Investment Performance[2]

		Current 7.48% (w / floor)	Current 7.48% (w / floor) + 12.5m Gifts	Alternate 5.5%	Current 7.48% (w / floor) + 17.8m Gifts
Occurrence (% of Time)	Floor	61	41	---	35
Over 1 Year	Real Growth	-2.9%	1.0%	6.9%	2.6%
	Effective Payout	7.6%	7.0%	5.1%	7.0%
Over 3 Years	Real Growth	-1.7%	3.9%	6.6%	5.0%
	Effective Payout	7.5%	7.2%	5.2%	7.2%

[1] Poor investment performance periods are defined by returns between the 75th and 95th percentiles.
[2] Strong investment performance periods are defined by returns between the 5th and 25th percentiles.

Spending and Shortfall Model - Summary of Inputs

Spending Rule Summary

Current 7.48% (w/ floor)	**Spending Rule(s)**	7.48% of average ending market value, trailing 2 years*
	Floor	*Custom Floor A*
Current 7.48% (w/ floor) + 12.5m Gifts	**Spending Rule(s)**	7.48% of average ending market value, trailing 2 years
	Floor	*Custom Floor A*
Alternate 5.5%	**Spending Rule(s)**	5.5% of average ending market value, trailing 2 years
Current 7.48% (w/ floor) + 17.8m Gifts	**Spending Rule(s)**	7.48% of average ending market value, trailing 2 years*
	Floor	*Custom Floor A*

Beginning Market Value	$650
Inflation Rate	3%

Asset Class	Weight
U.S. Equity	14.0%
Global ex U.S. Equity	14.0%
Emerging Market Equity	14.0%
Absolute Return	10.0%
Equity Hedge Funds	10.0%
Venture Capital	6.0%
Private Equity	6.0%
Commodities	6.0%
Real Estate Securities	1.0%
Real Estate	2.5%
Oil & Gas	4.5%
U.S. Government Bonds	5.5%
U.S. TIPS	1.0%
Global Government Bonds	5.5%
AACR	6.3%
Standard Deviation	11.7%

Exhibit 14

To: Burt Deutsch[Bdeutsch@CORRADINO.com]
Cc: Howarth,Susan Ingram[swingr01@exchange.louisville.edu]; Smith,Kathleen McDaniel[kimcda01@exchange.louisville.edu]; Kramer,Michael Dennis[mdkram01@exchange.louisville.edu]
From: Curtin,Michael J.
Sent: Thur 3/14/2013 3:03:32 PM
Importance: Normal
Subject: RE: UofL Foundation Endowment - Five-year Spending Allocation History
Received: Thur 3/14/2013 3:03:34 PM

Hi Burt: Thanks for the note and the thoughtful analysis. That said, the figures are the actual historical figures and are correct as shown. The Controller's Office has verified them as accurate. Let me attempt to explain what you are seeing:

Regarding your comments about the moving average figures of the December 31st market values (shown as Column (3)), much of the decline in the market values is caused essentially by five variables working together that have produced a net decrease from year to year in all years except FY 2013:

1. Beginning market value
2. Annual endowment earnings, including market appreciation and cash dividends and interest,
3. Cash inflows into the endowment from gifts -- either new cash endowment gifts or pledge payments,
4. Annual spending or cash outflows,
5. Outflows of cash for funding the $45 million line of credit over this time period.

During the five years in question, the cash going out of the endowment greatly exceeded cash inflows. The following table shows the amount of new endowment cash coming in to the endowment compared to the Advancement Office spending. For the five year period listed there was only a $766K net gain.

Year	Endowment Gifts	Advancement Spending	Net
2008	$11,072,094.90	$9,744,865.09	$1,327,229.81
2009	$8,091,284.94	$11,964,269.52	-$3,872,984.58
2010	$8,477,188.00	$10,428,835.55	-$1,951,647.55
2011	$15,408,121.84	$11,398,071.81	$4,010,050.03
2012	$13,339,166.00	$12,086,181.18	$1,252,984.82
			$765,632.53

Further, the average annual spending allocation (the 5.5% to the units) is an additional $65 to $83 million per year of projected cash outflow. For example, the annual combined endowment budgets for the units for the same time period are:

Year	Amounts
2008	$71,311,484
2009	$63,803,921
2010	$64,720,328
2011	$74,104,301
2012	$82,294,431

On the postive side and as we discussed, the units don't always spend their full allocations but carry-over the balances to subsequent fiscal years. That practice, while not good from a stewardship perspective, produces no drain on cash in the current fiscal year but postpones the pain to some future time period. Going back over the five years exhibited on the spreadsheet Mike Kramer, and Joe Gahlinger before him, have had to liquidate (sell-off) investements each year to meet the negaitive cash flow caused by spending. The amounts vary each year but have ranged from a low of $15 million up to about $25 Million. The selling of secuirities each year to meet annual spending is what Cambridge Associates refers to as a non-sustainable spending policy at UofL. So, the bottom line is that market values have been historically lower than what one might expect but this is mostly caused by spending and not endowment performance.

Also, the drawing down of cash from the endowment to meet the requirements of the $45 million line of credit has also negatively affected market values for this same time period. Simply put, the $45 million comes out of the endowment's market value along with the opportunity cost of any missed capital appreciation on same.

Regarding your observations on the spending amounts found on the spreadsheet, this too is fairly complex. What you are seeing in column (4) are the negative effects of underwater endowments receiving either a reduced spending allocation or in some cases none at all for the State-funded endowments. The more endowments that go underwater the less is allocated for spending in a given fiscal. The number of underwater endowments vary each year and are not shown in the spreadsheet. There is no mathematical function that can determine these but manual inspection by the Foundation accountants who identify them on detailed sreadsheet. For example, the low watermark for the same time period was 168 individual endowments underwater in FY 2012 and then a surge to 237 in FY 2013. The high watermark was 475 underwater endowments in FY 2010.

I hope this information helps. There are a lot of moving pieces at work here. I am out of the office next week so if you have any additional questions or need anything regarding endowments just call Mike Kramer. He is always happy to help. We would like to move ahead fairly soon on a spending strategy for next year to meet the budget development time line. Thanks!

…….Mike

Michael J. Curtin
Vice President for Finance / CFO
University of Louisville

From: Burt Deutsch [mailto:Bdeutsch@CORRADINO.com]
Sent: Wednesday, March 13, 2013 5:29 PM
To: Curtin,Michael J.
Cc: Howarth,Susan Ingram; Smith,Kathleen McDaniel
Subject: RE: UofL Foundation Endowment - Five-year Spending Allocation History

Mike, please take another look at your numbers.

Column (3), reading from the bottom, shows that the market value went down from FY 2009 to FY 2010 to 95.28% (from "09 to "10); then, in the next year, it went down to 95.31% of the previous year ('10); then, to 98.11%; then, up slightly to 100.89% of the previous year.

At the same time, reading from the bottom for Column (4), the spending policy (with no changes) went down to 95.28% of 2009; then, in the next year (changing the spending methodology from 3 to best 2 of 3 years), it went down to 96.41%; then, in the next year with additional changes to the spending methodology, the spending policy went up to 106.72% of the previous year (what we would expect based upon what we were trying to achieve--moving the total dollars distributed for FY 2012 above the 2010 level by a million dollars and less than a million below the 2009 distribution); BUT THEN, for FY 2013, with the same spending methodology as in 2012, while the market value went up by almost 1%, the spending policy WENT DOWN to 96.33% of the previous year. I would think that it would have gone up--so that number must be wrong. That is confirmed by the fact that the amounts in Columns (5) and (6) WENT UP. But, maybe I am wrong. Let me know one way or another.

Once we know we have the correct numbers, then we can look at what is best for the spending methodology for FY 2014, this budget that we are preparing.

From: Curtin,Michael J. [mailto:michael.curtin@louisville.edu]
Sent: Tuesday, March 12, 2013 5:39 PM
To: Burt Deutsch
Cc: Howarth,Susan Ingram; Smith, Kathleen (kathleen@louisville.edu); Ramsey,James Richard; Willihnganz,Shirley C.
Subject: UofL Foundation Endowment - Five-year Spending Allocation History

Hi Burt: Per your request, attached is a spreadsheet showing the funding history for the past five years for the UofL Foundation endowment. Let me know if you have any questions. Thanks!

…….Mike

Michael J. Curtin
Vice President for Finance / CFO
University of Louisville

Exhibit 15

Procedures & Findings Report
ULF Budget to Actual Comparison FY2014
Exhibit 15

	Budgeted Expense[1]	Actual Expense[2]	Over/(Under) Budget	For the Benefit Of		
				ULF	UofL	Total
Endowment Program Spending Allocation (5.5%)						
Endowment Program Spending - Funded by current year allocation[3]	$ 32,056,157	$ 26,049,459	$ (6,006,698)	$ -	$ 26,049,459	$ 26,049,459
Endowment Spending - Funded by Carryover	47,849,967	11,750,279	(36,099,688)	-	11,750,279	11,750,279
Endowment Expenses - Excess of current year and Carryover	-	1,782,349	1,782,349	-	1,782,349	1,782,349
Endowment Sub-Total	$ 79,906,124	$ 39,582,087	$ (40,324,037)	$ -	$ 39,582,087	$ 39,582,087
Fundraising, Business Operations, and other Unrestricted Spending (Includes 1.98% Advancement Spending and President Initiative Spending Allocation)[4]						
Fundraising/Advancement	$ 9,714,446	$ 9,574,019	$ (140,427)	$ 1,553,626	$ 8,020,393	$ 9,574,019
Foundation	830,328	2,413,497	1,583,169	2,413,497	-	2,413,497
Communications & Marketing	340,600	327,056	(13,544)	-	327,056	327,056
Government Relations	442,429	401,527	(40,902)	-	401,527	401,527
Other Unrestricted Spending	1,037,073	1,913,570	876,497	-	1,913,570	1,913,570
Foundation & Advancement Operations Total	12,364,876	14,629,670	2,264,794	3,967,124	10,662,546	14,629,670
President Advancement Activities[5]	3,163,993	3,641,671	477,678	-	3,641,671	3,641,671
JGBCC Activity[6]	-	4,083,036	4,083,036	-	4,083,036	4,083,036
Voluntary Separation Incentive Program	-	1,936,822	1,936,822	-	1,936,822	1,936,822
Non-Budgeted Unrestricted Spending Sub-total	-	6,019,858	6,019,858	-	6,019,858	6,019,858
Unrestricted Spending Sub-Total	$ 15,528,869	$ 24,291,199	$ 8,762,330	$ 3,967,124	$ 20,324,075	$ 24,291,199
Other Spending						
Subsidiary	$ -	$ 4,002,472	$ 4,002,472	$ 4,002,472	$ -	$ 4,002,472
Deferred Compensation[7]	-	3,944,612	3,944,612	-	3,944,612	3,944,612
TIF Revenue Pledged to UofL	-	2,187,326	2,187,326	-	2,187,326	2,187,326
Endowment Management Fees	-	1,612,103	1,612,103	1,612,103	-	1,612,103
Real Estate Expenses[8]	-	1,844,623	1,844,623	1,844,623	-	1,844,623
Bond Interest Expense (TNRP)	-	1,127,980	1,127,980	1,127,980	-	1,127,980
Current Spending - Miscellaneous[9]	-	2,722,019	2,722,019	-	2,722,019	2,722,019
Other Spending Sub-total	$ -	$ 17,441,136	$ 17,441,136	$ 8,587,179	$ 8,853,957	$ 17,441,136
Current Use Gift Spending[10]	$ 47,192,977	$ 33,661,578	$ (13,531,399)	$ 13,674	$ 33,647,904	$ 33,661,578
ULH Budgeted Items						
Residence Hall Ops	$ 6,152,200	$ 6,320,892	$ 168,692	$ 6,320,892	$ -	$ 6,320,892
Non-Cash Expenses						
Depreciation Expense		$ 6,579,608		$ 3,645,678	$ 2,933,930	$ 6,579,608
Amortization Expense		88,381		88,381	-	88,381
Non-Cash Expenses		6,667,989		3,734,059	2,933,930	6,667,989
Total Expenses[11]		**$ 127,964,880**		**$ 22,622,927**	**$ 105,341,953**	**$ 127,964,880**

Procedures & Findings Report
ULF Budget to Actual Comparison FY2014
Exhibit 15

***Notes*:**

1) Represents expenditures approved in the ULF FY2014 operating budget by the ULF Board of Directors.
2) Represents expenditures recorded in ULF's Statement of Activity during FY2014.
3) A&M assumed Endowment Programs spent their current year Spending Policy Allocation before they spent their Spending Policy Allocation Carryover.
4) Includes all expenditures recorded to the "U" program code in PeopleSoft. Not all "U" program codes were specifically identified in the approved ULF Budget.
5) Represents expenses based on program codes associated with the Office of the President.
6) Represents ULRF expenditures funded by the JGBCC Grant.
7) A portion of the deferred compensation expenses are non-cash expenses.
8) Represents expenses related to real properties purchased by ULF identified by the "X" program codes.
9) Represents miscellaneous expenses identified by the "Z" program codes.
10) The budgeted amount represents an estimate of gifts expected to be received during the period and is not reflective of gifts actually received or gift carryover balances. Expenditures funded by gifts cannot be spent until the gift monies are actually received.
11) A&M does not compare the total budget to total actual expenditures because budgeted funds such as the Endowment Program Spending Allocation cannot be used to fund other expenditures.

Procedures & Findings Report
ULF Budget to Actual Comparison FY2015
Exhibit 15

	Budgeted Expense[1]	Actual Expense[2]	Over/(Under) Budget	For the Benefit Of		
				ULF	UofL	Total
Endowment Program Spending Allocation (5.5%)						
Endowment Program Spending - Funded by current year allocation[3]	$ 38,466,005	$ 26,849,902	$ (11,616,103)	$ -	$ 26,849,902	$ 26,849,902
Endowment Spending - Funded by Carryover	37,455,418	6,301,004	(31,154,414)	-	6,301,004	6,301,004
Endowment Expenses - Excess of current year and Carryover	-	1,440,655	1,440,655	-	1,440,655	1,440,655
Endowment Sub-Total	$ 75,921,423	$ 34,591,561	$ (41,329,862)	$ -	$ 34,591,561	$ 34,591,561
Fundraising, Business Operations, and other Unrestricted Spending (Includes 1.98% Advancement Spending and President Initiative Spending Allocation)[4]						
Fundraising/Advancement	$ 10,025,106	$ 8,658,262	$ (1,366,844)	$ 1,066,258	$ 7,592,004	$ 8,658,262
Foundation	2,193,309	2,468,409	275,100	2,468,409	-	2,468,409
Communications & Marketing	340,600	309,811	(30,789)	-	309,811	309,811
Government Relations	449,595	354,632	(94,963)	-	354,632	354,632
Other Unrestricted Spending	1,652,723	1,694,606	41,884	-	1,694,606	1,694,606
Foundation & Advancement Operations Total	14,661,333	13,485,721	(1,175,612)	3,534,667	9,951,054	13,485,721
President Advancement Activities[5]	3,263,403	4,161,210	897,807	-	4,161,210	4,161,210
JGBCC Activity[6]	-	2,167,501	2,167,501	-	2,167,501	2,167,501
VSIP	-	435,523	435,523	-	435,523	435,523
Non-Budgeted Unrestricted Spending Sub-total	-	2,603,024	2,603,024	-	2,603,024	2,603,024
Unrestricted Spending Sub-Total	$ 17,924,736	$ 20,249,955	$ 2,325,219	$ 3,534,667	$ 16,715,288	$ 20,249,955
Other Spending						
Subsidiary	$ -	$ 10,719,453	$ 9,341,122	$ 10,719,453	$ -	$ 10,719,453
Deferred Compensation[7]	-	3,315,395	3,315,395	-	3,315,395	3,315,395
TIF Revenue Pledged to UofL	-	4,100,000	4,100,000	-	4,100,000	4,100,000
Endowment Management Fees	-	1,124,683	1,124,683	1,124,683	-	1,124,683
Real Estate Expenses[8]	-	4,698,531	4,161,248	4,161,248	537,283	4,698,531
Contributions to ULREF	-	3,837,573	3,837,573	3,837,573	-	3,837,573
Bond Interest Expense (TNRP)	-	2,056,583	2,056,583	2,056,583	-	2,056,583
Current Spending - Miscellaneous[9]	-	4,147,888	6,063,501	297,195	3,850,693	4,147,888
Other Spending Sub-total	$ -	$ 34,000,106	$ 34,000,106	$ 22,196,735	$ 11,803,371	$ 34,000,106
Current Use Gift Spending[10]	$ 43,012,228	$ 23,605,015	$ (19,407,213)	$ -	$ 23,605,015	$ 23,605,015
ULH Budgeted Items						
Residence Hall Ops	$ 6,204,700	$ 6,286,942	$ 82,242	$ 6,286,942	$ -	$ 6,286,942
Non-Cash Expenses						
Depreciation Expense		$ 7,268,677		$ 4,935,522	$ 2,333,155	$ 7,268,677
Amortization Expense		286,152		263,480	22,671	286,152
Fixed Asset Contributions to ULREF		892,500		892,500	-	892,500
Reinvestment of Endowment Funds[11]		(3,612,760)		-	(3,612,760)	(3,612,760)
Reconcling Item to Audited Financial Statements		660,000		-	660,000	660,000
Non-Cash Expenses		5,494,569		6,091,502	(596,933)	5,494,569
Total Expenses[12]		**$ 124,228,148**		**$ 40,271,258**	**$ 83,956,891**	**$ 124,228,148**

Procedures & Findings Report
ULF Budget to Actual Comparison FY2015
Exhibit 15

***Notes*:**

1) Represents expenditures approved in the ULF FY2015 operating budget by the ULF Board of Directors.
2) Represents expenditures recorded in ULF's Statement of Activity during FY2015.
3) A&M assumed Endowment Programs spent their current year Spending Policy Allocation before they spent their Spending Policy Allocation Carryover.
4) Includes all expenditures recorded to the "U" program code in PeopleSoft. Not all "U" program codes were specifically identified in the approved ULF Budget.
5) Represents expenses based on program codes associated with the Office of the President.
6) Represents expenditures by ULRF funded by the JGBCC Grant.
7) A portion of the deferred compensation expenses are non-cash expenses.
8) Represents expenses related to real properties purchased by ULF identified by the "X" program codes.
9) Represents miscellaneous expenses identified by the "Z" program codes.
10) The budgeted amount represents an estimate of gifts expected to be received during the period and is not reflective of gifts actually received or gift carryover balances. Expenditures funded by gifts cannot be spent until the gift monies are actually received.
11) Funds sent back from Endowment Programs to be reinvested in the investment pool.
12) A&M does not compare the total budget to total actual expenditures because budgeted funds such as the Endowment Program Spending Allocation cannot be used to fund other expenditures.

Procedures & Findings Report

ULF Budget to Actual Comparison FY2016

Exhibit 15

	Budgeted Expense[1]	Actual Expense[2]	Over/(Under) Budget	For the Benefit Of: ULF	For the Benefit Of: UofL	For the Benefit Of: Total
Endowment Program Spending Allocation (5.5%)						
Endowment Program Spending - Funded by current year allocation[3]	$ 39,107,113	$ 29,056,834	$ (10,050,279)	$ -	$ 29,056,834	$ 29,056,834
Endowment Spending - Funded by Carryover	45,161,008	5,166,486	(39,994,522)	-	5,166,486	5,166,486
Endowment Expenses - Excess of current year and Carryover	-	1,895,806	1,895,806	-	1,895,806	1,895,806
Endowment Program Contributions not Spent[4]	-	6,117,170	6,117,170	-	6,117,170	6,117,170
Endowment Sub-Total	84,268,121	42,236,296	(42,031,825)	-	42,236,296	42,236,296
Fundraising, Business Operations, and other Unrestricted Spending (Includes 1.98% Advancement Spending and President Initiative Spending Allocation)[5]						
Fundraising/Advancement	$ 10,440,401	$ 9,240,110	$ (1,200,291)	$ -	$ 9,240,110	$ 9,240,110
Foundation	5,857,069	2,525,832	(3,331,237)	2,525,832	-	2,525,832
Communications & Marketing	340,600	332,526	(8,074)	-	332,526	332,526
Government Relations	449,595	360,101	(89,494)	-	360,101	360,101
Other Unrestricted Spending	1,656,610	1,434,320	(222,290)	-	1,434,320	1,434,320
Additional Budgeted Amounts	123,123	-	(123,123)	-	-	-
Foundation & Advancement Operations Total	18,867,399	13,892,890	(4,974,509)	2,525,832	11,367,057	13,892,890
President Advancement Activities[6]	3,154,648	6,515,488	3,360,840	-	6,515,488	6,515,488
Unrestricted Spending Sub-Total	$ 22,022,047	$ 20,408,377	$ (1,613,670)	$ 2,525,832	$ 17,882,545	$ 20,408,377
Other Spending						
Subsidiary	$ -	$ 5,234,431	$ 5,234,431	$ 5,234,431	$ -	$ 5,234,431
Deferred Compensation[7]	-	2,153,032	2,153,032	-	2,153,032	2,153,032
TIF Revenue Pledged to UofL	6,300,000	6,300,000	-	-	6,300,000	6,300,000
Endowment Management Fees	-	1,270,006	1,270,006	1,270,006	-	1,270,006
Real Estate Expenses[8]	-	609,961	609,961	609,961	-	609,961
Bond Interest Expense (TNRP)	-	2,157,692	2,157,692	2,157,692	-	2,157,692
Current Spending - Miscellaneous[9]	-	1,675,099	1,675,099	1,402,920	272,179	1,675,099
Other Spending Sub-total	$ 6,300,000	$ 19,400,222	$ 13,100,222	$ 10,675,010	$ 8,725,212	$ 19,400,222
Current Use Gift Spending[10]	$ 42,095,813	$ 23,381,669	$ (18,714,143)	$ -	$ 23,381,669	$ 23,381,669
Current Use Gift contributions not spent[11]	-	11,524,096	11,524,096	-	11,524,096	11,524,096
Gift Subtotal	$ 42,095,813	$ 34,905,765	$ (7,190,048)	$ -	$ 34,905,765	$ 34,905,765
ULH Budgeted Items						
Residence Hall Ops	$ 6,481,700	$ 5,573,511	$ (908,189)	$ 5,573,511	$ -	$ 5,573,511
Non-Cash Expenses						
Contribution to ULREF		$ 40,120,694		$ 40,120,694	$ -	$ 40,120,694
Depreciation Expense		6,678,472		6,678,472	-	6,678,472
PGxL Loss Contingency		1,936,000		1,936,000	-	1,936,000
Amortization Expense		499,328		499,328	-	499,328
Non-Cash Expenses		49,234,494		49,234,494	-	49,234,494
Total Expenses[12]		**$ 171,758,665**		**$ 68,008,847**	**$ 103,749,818**	**$ 171,758,665**

Procedures & Findings Report

ULF Budget to Actual Comparison FY2016

Exhibit 15

***Notes*:**

1) Represents expenditures approved in the ULF FY2016 operating budget by the ULF Board of Directors.
2) Represents expenditures recorded in ULF's Statement of Activity during FY2016.
3) A&M assumed Endowment Programs spent their current year Spending Policy Allocation before they spent their Spending Policy Allocation Carryover.
4) ULF contributed $42 million to Endowment Programs. Endowment Programs only incurred $36 million of expenses. The additional $6 million represents unspent contributions.
5) Includes all expenditures recorded to the "U" program code in PeopleSoft. Not all "U" program codes were specifically identified in the approved ULF Budget.
6) Represents expenses based on program codes associated with the Office of the President.
7) A portion of the deferred compensation expenses are non-cash expenses.
8) Represents expenses related to real properties purchased by ULF identified by the real estate budget centers.
9) Represents miscellaneous expenses identified by general overhead budget centers.
10) The budgeted amount represents an estimate of gifts expected to be received during the period and is not reflective of gifts actually received or gift carryover balances. Expenditures funded by gifts cannot be spent until the gift monies are actually received.
11) ULF contributed $35 million to Current Use Gift Programs. Current Use Gift Programs only incurred $23 million of expenses. The additional $12 million represents unspent contributions.
12) A&M does not compare the total budget to total actual expenditures because budgeted funds such as the Endowment Program Spending Allocation cannot be used to fund other expenses.

Exhibit 16

To: Tomlinson,Jason[jason.tomlinson@louisville.edu]
From: Smith,Kathleen McDaniel
Sent: Wed 11/20/2013 12:54:45 AM
Subject: RE: CCG-Louisville / Management Agreement

We should talk about all these strategies. On surface makes very good sense. K

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 11/19/2013 10:27 AM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>,"'Saffer, David'" <dsaffer@stites.com>
Subject: RE: CCG-Louisville / Management Agreement

Agreed and I'm working on that. It needs to be for projects that have a revenue stream but we could use it for NE Quadrant acquisition, Cardinal station refinancing, etc. The issues I'm checking on are:

- Any threshold before we should or have to take it to BOT
- How liquid does it have to be or is there a balance between how much?
- Would we need to modify the University's short-term investment policy

---

From: Smith,Kathleen McDaniel
Sent: Monday, November 18, 2013 3:47 PM
To: 'Saffer, David'; Tomlinson,Jason
Subject: RE: CCG-Louisville / Management Agreement

Jason, why not lend more university money to the ULF for appreciation. The ULF would use it as appropriate, but the University funds would be stewarded better to receive more interest than what they are getting now. Just make it as a matter of general policy. K

From: Saffer, David [mailto:dsaffer@stites.com]
Sent: Monday, November 18, 2013 2:53 PM
To: Tomlinson,Jason; Smith,Kathleen McDaniel
Subject: RE: CCG-Louisville / Management Agreement

If that's ok with Kathleen it works for me. I will put together a note from CCG-Louisville to the Foundation incorporating the terms I described in the Management Agreement.

From: Tomlinson,Jason [mailto:jason.tomlinson@louisville.edu]
Sent: Monday, November 18, 2013 2:51 PM
To: Smith,Kathleen McDaniel; Saffer, David
Subject: RE: CCG-Louisville / Management Agreement

I agree and if you will indulge me, I think I can explain what I'm thinking here which will take up less time than a phone call.

What I would like to do is "loan" University reserves to the Foundation to loan to CCG.

This has two main pluses:

1. I do not have to liquidate $3.7M from the endowment pools which means that is $3.7M that will continue to earn 10% or hopefully more.
2. The University currently earns .25% on its reserves. This deal will increase that to 2%.

These are both quantifiable pluses that add money to the bottom line of the University and the Foundation. We can add them to our efficiency reports if we choose.

My concern with documenting in the form of a promissory note is that it has the potential of showing up on the Financial statements. An interest rate of 2% is lower than market which could open us up to scrutiny which I don't think we want.

What we have decided is we can have an informal agreement between the University and the Foundation which does not have to be reflected and a formal promissory note between ULF and CCG. Even though this will have to be recorded on CCG's statements it should be a "wash" for ULF statements. Provided Kathleen does not see any issues with this approach, I would recommend we handle as described above.

Thanks…Jason

From: Smith,Kathleen McDaniel
Sent: Sunday, November 17, 2013 2:52 PM
To: Tomlinson,Jason; Saffer, David
Cc: Smith,Kathleen McDaniel
Subject: Re: CCG-Louisville / Management Agreement

We just need some kind of documentation. K

Sent from Samsung Mobile

-------- Original message --------
From: "Tomlinson,Jason" <jason.tomlinson@louisville.edu>
Date: 11/17/2013 12:25 PM (GMT-05:00)
To: "Saffer, David" <dsaffer@stites.com>
Cc: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: Re: CCG-Louisville / Management Agreement

Let's talk Monday. We are working on a way to use cash on hand so as to not liquidate any of the endowment. I don't want to pull out any money earning money if I can avoid it. In the end that may not change whether or not we want a promissory note, but a promissory note and straight loan hits the financial statements and the endowment pool. I think we have identified a methodology that will be beneficial.

Sent from my iPad

> On Nov 17, 2013, at 11:49 AM, "Saffer, David" <dsaffer@stites.com> wrote:
>
> I think I left you off this email. Two more emails to follow.
>
> From: Saffer, David
> Sent: Sunday, November 17, 2013 10:34 AM
> To: 'Miller,Kevin'; Droege, Larry
> Cc: Spoelker,Jeff; Smith,Kathleen McDaniel
> Subject: RE: CCG-Louisville / Management Agreement
>
> Kevin: I have attached clean and black-lined copies of the revised Management Agreement.
>
> Kathleen and Jason: I know we discussed not documenting the loan, but I would recommend we structure this as a loan from the Foundation to CCG-Louisville that would be repaid by CCG-Louisville or ULAA. The only document we would need would be a promissory note. Let us know if you agree.
>
> Thanks.
>
> From: Miller,Kevin [mailto:kevin.miller@louisville.edu]<mailto:[mailto:kevin.miller@louisville.edu]>
> Sent: Friday, November 15, 2013 2:59 PM
> To: Saffer, David; Droege, Larry
> Cc: Spoelker,Jeff; Smith,Kathleen McDaniel
> Subject: FW: CCG-Louisville / Management Agreement
>
> David
>
> We have a few comments. Jeff has listed his questions below.

>
> My comments are as follows:
>
>
> 1. This agreement should include language or an attachment from Foundation referencing terms for the $4M that CCG is borrowing from foundation. We have no agreement in place and this is needed before we sign.
>
> 2. The term of the Management Agreement is for 10 years with one year renewals. Why wouldn't this agreement mirror the length of our loan, 30 years?
>
> 3. The name of course will be University of Louisville Golf Club (ULGC).
>
> 4. We have placed ULGC on same fiscal year as UL and ULAA, July 1 thru June 30. We are taking over on December 1 so we had them prepare 7 month budgets to complete the year. Agreement should reflect those dates and not calendar year.
>
> 5. Section 7 (a) Termination by owner is not acceptable. Please prepare language similar to Section 7 (b). We cannot accept language that places us at risk with 60 days-notice.
>
> 6. On page 10, you reference operating expenses do not include "ground lease rent". What does this mean? Make sure it does not include Lincoln Foundation Lease on water as that will be part of operating expenses.
>
> In addition to the comments on Management Agreement, please note:
>
>
> 1. We are still having issues on wall repair. He does not want to pay and Tom says if they do not correct, we will not purchase. Estimate by EBI is $15,000. I am exploring another option to repair. I will keep you posted. Please confirm with EBI that their estimate to repair for $15K is accurate.
>
> 2. What is timeline for liquor license? Are we confident we will have license when we takeover? We need to have license in place. If we can close deal with SODEXO, it will not be effective until March 1.
>
> 3. We need EBI to review the 5 areas of concern and report back to us by mid-week. Only issue not corrected is the wall. Russ Johnson can show them what has been repaired.
>
> 4. Do you have copies of blue prints for clubhouse and other related documents? Chester said he provided you with a set when we were reviewing two years ago. We need a copy as we are preparing to renovate Club House. Need to know on this asap.
>
> 5. Timeline for closing:
>
> a. Chester will own thru December 1, as this is a Sunday and it is clean date to change salaries etc…
>
> b. We will take inventory on morning of December 2nd.
>
> c. We will close on agreement on December 3rd.
>
> d. All utilities and venders will be notified that we will take over business on December 3rd.
>
> e. Chester will cease employment activities with all employees effective December 1.
>
> Let me know if we are missing anything. Appreciate all your help.
>
> Kevin
>
>
>
> [Description: Description: Description: Description: Description: Description: Description: Description: Description: Description: Description: Description: Description: Description: image]
>
> Kevin Miller
> Executive Senior Associate AD
> University of Louisville Athletics
> 2100 S. Floyd St., Louisville, KY 40292
> w: 502.852.0118 | c: 502.599.7863
> f: 502.852.5784
> Kevin@GoCards.com<mailto:Kevin@GoCards.com> | GoCards.com<http://www.gocards.com/>
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>
>
>
>
>
> From: Spoelker,Jeff
> Sent: Thursday, November 14, 2013 4:47 PM
> To: Miller,Kevin
> Subject: FW: CCG-Louisville / Management Agreement
>
> My issues:
>
> · Needs to be University of Louisville Golf Club and not Cardinal Club
>
> · 1m - Emergency repairs in excess of 100k need board approval. May be obstacle and not necessary since we are ultimately responsible for deficits
>
> · 3a – management fee. Will be on July 1 fiscal year and not calendar year. Thinking dates of transfer will be by July 30th.
>
> · Did I overlook loan terms and payment?
>
>
>
> From: Saffer, David [mailto:dsaffer@stites.com]
> Sent: Thursday, November 14, 2013 10:54 AM
> To: Miller,Kevin; Spoelker,Jeff; Tomlinson,Jason
> Cc: Droege, Larry
> Subject: CCG-Louisville / Management Agreement
>
> Everyone: I have attached an initial draft of the Management Agreement. If you would, please review and let me know if you have any comments or questions. Thanks.
>
> David E. Saffer
> Member
> Direct: 502-681-0547
> Mobile: 502-741-3112
> Fax: 502-779-8361
> dsaffer@stites.com<mailto:dsaffer@stites.com>
> STITES&HARBISON PLLC
> 400 West Market Street, Suite 1800, Louisville, KY 40202-3352
> About Stites & Harbison<http://www.stites.com> | Bio<http://www.stites.com/attorneys/173/david-e-saffer> | V-Card<http://www.stites.com/vcard.php?PeopleID=173>
> Please consider the environment before printing this email.
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> <image002.jpg>
> <image003.jpg>
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> <image005.jpg>
> <LOUISVILLE-#948743-v4-CCG-Louisville___Management_Agreement.docx>
> <LOUISVILLE-#948743-vrtf-CCG-Louisville___Management_Agreement.rtf>

Exhibit 17

To: Rademaker,Anne Trost[anne.rademaker@louisville.edu]; Howarth,Susan Ingram[swingr01@louisville.edu]; Ruhl,Justin William[justin.ruhl@louisville.edu]
Cc: Zink,Larry W[lwzink01@louisville.edu]
From: Tomlinson,Jason
Sent: Thur 5/22/2014 3:12:51 PM
Subject: RE: UL Loan to ULF Trans 2014
DOC.PDF

Attached is the signed document.

I think we need to be consistent in what we call it and we need to refer to it in a manner that does not cause issue with our bond covenants. The wording Justin came up with is a receivable agreement. I don't personally care what we call it as long as it achieves those goals.

Thanks….Jason

From: Rademaker,Anne Trost
Sent: Thursday, May 22, 2014 10:56 AM
To: Howarth,Susan Ingram; Ruhl,Justin William
Cc: Zink,Larry W; Tomlinson,Jason
Subject: RE: UL Loan to ULF Trans 2014

How about UL Advance to ULF?

Thanks,
Anne Rademaker, CPA
Director of Reporting and University Accounting
P: 502.852.6272
F: 502.852.8228

From: Howarth,Susan Ingram
Sent: Thursday, May 22, 2014 10:28 AM
To: Rademaker,Anne Trost; Ruhl,Justin William
Cc: Zink,Larry W; Tomlinson,Jason
Subject: RE: UL Loan to ULF Trans 2014

According to Jason we do not want to refer to this as a "loan" so can we change that???

From: Rademaker,Anne Trost
Sent: Thursday, May 22, 2014 10:23 AM
To: Ruhl,Justin William
Cc: Zink,Larry W; Howarth,Susan Ingram; Tomlinson,Jason
Subject: UL Loan to ULF Trans 2014

Attached is a draft of the memo related to the loan. Some of the information is still outstanding, but this gives the general format of the entries and impact to the financial statements.

Please let me know any changes or comments.

Thanks,
Anne Rademaker, CPA
Director of Reporting and University Accounting
P: 502.852.6272
F: 502.852.8228

Exhibit 18

To: Tomlinson,Jason[rjtoml01@exchange.louisville.edu]
From: Ruhl,Justin William
Sent: Tue 5/10/2016 4:46:22 PM
Importance: Normal
Subject: Memo for State Auditor
Received: Tue 5/10/2016 4:46:23 PM
25. Spending Policy Memo.docx

Jason,

See attached for the memo drafted for the State auditor in regards to their "prudency analysis" request. As you know, we don't do anything resembling a formal prudency analysis, so I took details of the spend policy calculation and methodology and blended them with language in UPMIFA. I also sprinkled in our investment policy allocation & re-investments.

If I had to give this a reliability rating on whether this document demonstrates we are being prudent, I would give it a "C".

This is not in the memo, but from looking at the numbers and the information available to us at this point, our spending policy (not including off the top liquidations) is not sustainable long term. If off the top is included, its unsustainable in the short term – it would only take a couple more fiscal periods until the entire MV of the pool is at/below its stated BV. The pool has lost over $80MM in market value from July 2015 to March 2016 and there is no indication that next year we won't see similar decrease.

We are looking into the 1.98% but there needs to be a more reliable (prudent) rationale for our 5.5% going forward (including FYE17's calculation). If this rate of spending is maintained, there needs to be more justification & Board discussion given to the spending policy rationale so that the Foundation continues to pass the "prudent person in a like position" test. A spend policy of 7.48% plus off the top liquidations doesn't pass that test (that's an opinion but there is plenty in UPMIFA, other Foundation benchmarking, Cambridge, and other sources to support that position).

In fact, UMPIFA specifically states that any spending policy above 7% creates a "presumption of imprudence". So we are in a "guilty until proven innocent" position right from the start.

I'm probably stating the obvious, but our unsustainable spending is not just limited to endowments or ULF. This is a global problem with ULF and ULREF. ULREF has to liquidated the UL $$ monthly to cover operating expenses (our April burn rate was over $800k net outflow)…May is trending to be the same.

I bring these points up, most of which we have already discussed, to make sure our office communicating an accurate picture of the financial health of the Foundations. It's become evident lately from the questions we have been receiving & the commitments being made that the actual financial health of the Foundations at this current point is not the same the Leadership's perceived financial health of the entities. Whereas the perception is much more favorable than reality.

Also, since most of our discussions on the topic are verbal, there is little documented history regarding our office's proposed fiscal plan, other than the final product which is typically massaged to point which is not reflective of our initial recommendations based on our assessment of the plan's viability. In other words, it's the plan Leadership wants, not what we feel we can deliver upon given our resources. That gap between expectation vs. reality has begun to widen significantly over the course of this fiscal year (an opinion). Another opinion…I believe it would strength everyone's understanding if there were more formalized discussions on such topics when challenged internally by departments or externally by media, auditors, donors, etc.

Justin Ruhl, CPA
Director of Foundation Accounting Operations
University of Louisville
215 Central Avenue, Suite 304
Louisville, KY 40208
T 502.852.8254 | **F 502.852.8228**
C 502.303.6641
www.louisvillefoundation.org

UNIVERSITY of LOUISVILLE
FOUNDATION

Exhibit 19

Procedures & Findings Report

ULF Compensation Analysis

Exhibit 19

ULF Officers

Employee	Department	Year	ULF Salary[1,2,3]	ULF XPAY[1,2,4]	UofL Salary[1,2,5]	UofL XPAY[1,2,6]	Other UofL Compensation[7]	Other[1,2]	Total UofL / ULF Compensation	UHI[8]	ULF Subsidiaries[9]	Minerva / DCPA[10]	Total Compensation
Ramsey, James	**Office of the President**	2010	$ 142,313	$ 2,936	$ 313,819	$ 6,474	$ 58,601	$ -	$ 524,143	$ -	$ -	$ -	$ 524,143
		2011	145,756	213,431	321,779	-	71,161	-	752,128	-	-	-	752,128
		2012	270,260	42,678	329,740	-	73,276	-	715,954	-	-	2,358,546	3,074,500
		2013	275,665	49,498	336,335	-	69,466	-	730,963	-	-	944,512	1,675,475
		2014	290,121	109,923	346,359	-	125,888	-	872,292	-	-	1,905,240	2,777,531
		2015	303,660	5,478	355,036	-	2,925	-	667,098	-	-	1,212,262	1,879,360
		2016	235,703	3,195	207,306	510,401	7,190	-	963,794	-	-	744,290	1,708,084
			$ 1,663,478	**$ 427,139**	**$ 2,210,374**	**$ 516,875**	**$ 408,506**	**$ -**	**$ 5,226,372**	**$ -**	**$ -**	**$ 7,164,851**	**$ 12,391,222**
Willihnganz, Shirley	**Office of the President**	2010	$ 49,449	$ 6,000	$ 301,751	$ 6,316	$ 4,388	$ -	$ 367,904	$ 32,333	$ -	$ -	$ 400,237
		2011	46,787	42,610	309,295	(18,000)	5,499	-	386,191	78,685	-	-	464,876
		2012	47,928	97,364	316,839	-	14,880	-	477,011	-	-	1,768,457	2,245,467
		2013	48,887	99,784	323,176	-	14,834	-	486,681	-	-	328,461	815,142
		2014	50,842	105,235	336,104	-	14,892	-	507,072	-	-	972,686	1,479,758
		2015	51,839	11,478	342,694	-	1,188	-	407,199	-	-	598,809	1,006,007
		2016	25,920	2,739	274,347	-	1,188	-	304,193	-	-	79,658	383,851
			$ 321,651	**$ 365,209**	**$ 2,204,206**	**$ (11,684)**	**$ 56,869**	**$ -**	**$ 2,936,251**	**$ 111,018**	**$ -**	**$ 3,748,070**	**$ 6,795,339**
Smith, Kathleen	**Office of the President**	2010	$ 41,130	$ 12,000	$ 123,389	$ -	$ 1,188	$ -	$ 177,707	$ 10,000	$ -	$ -	$ 187,707
		2011	41,851	12,000	125,551	-	1,188	-	180,590	64,297	-	-	244,887
		2012	43,172	46,297	129,513	-	2,336	-	221,318	45,000	-	1,314,469	1,580,787
		2013	43,730	12,000	131,186	-	2,286	-	189,201	46,800	-	185,610	421,611
		2014	45,479	12,000	136,434	-	2,286	-	196,199	48,975	-	630,369	875,543
		2015	47,067	47,264	141,196	-	2,286	-	237,812	51,100	-	263,253	552,165
		2016	103,518	8,500	143,282	-	1,524	-	256,824	29,808	-	233,304	519,936
			$ 365,945	**$ 150,061**	**$ 930,550**	**$ -**	**$ 13,094**	**$ -**	**$ 1,459,650**	**$ 295,980**	**$ -**	**$ 2,627,005**	**$ 4,382,636**
Curtin, Michael	**Finance**	2010	$ 21,909	$ 6,540	$ 216,536	$ 5,460	$ 1,188	$ -	$ 251,633	$ -	$ -	$ -	$ 251,633
		2011	25,370	12,000	223,305	-	1,188	-	261,863	-	-	-	261,863
		2012	25,750	12,000	226,600	-	1,238	-	265,588	-	-	108,674	374,262
		2013	25,750	8,000	226,600	-	1,524	-	261,874	-	-	128,374	390,247
		2014	-	-	210,292	-	-	-	210,292	-	-	232,028	442,320
		2015	-	-	-	-	-	-	-	-	-	10,961	10,961
			$ 98,779	**$ 38,540**	**$ 1,103,333**	**$ 5,460**	**$ 5,138**	**$ -**	**$ 1,251,249**	**$ -**	**$ -**	**$ 480,037**	**$ 1,731,286**
Tomlinson, Jason	**Finance**	2010	$ -	$ -	$ 89,935	$ -	$ 229	$ -	$ 90,164	$ 12,000	$ -	$ -	$ 102,164
		2011	-	-	90,066	-	233	-	90,299	12,000	-	-	102,299
		2012	-	-	92,597	-	238	-	92,835	18,332	-	-	111,166
		2013	-	4,000	128,512	-	248	-	132,759	38,446	-	-	171,205
		2014	104,000	60,514	100,000	-	414	-	264,928	40,362	-	-	305,290
		2015	211,120	50,572	-	-	414	-	262,106	41,766	-	-	303,872
		2016	245,859	6,600	-	-	207	-	252,666	21,191	-	-	273,857
			$ 560,979	**$ 121,686**	**$ 501,110**	**$ -**	**$ 1,982**	**$ -**	**$ 1,185,757**	**$ 184,097**	**$ -**	**$ -**	**$ 1,369,854**

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Other Employees with Deferred Compensation													
Employee	**Department**	**Year**	**ULF Salary[1,2,3]**	**ULF XPAY[1,2,4]**	**UofL Salary[1,2,5]**	**UofL XPAY[1,2,6]**	**Other UofL Compensation[7]**	**Other[1,2]**	**Total UofL / ULF Compensation**	**UHI[8]**	**ULF Subsidiaries[9]**	**Minerva / DCPA[10]**	**Total Compensation**
Miller, Donald	**Other - Cancer Center**	2010	$ 223,755	$ -	$ 157,334	$ 1,076	$ 1,486	$ -	$ 383,651	$ -	$ -	$ -	$ 383,651
		2011	224,771	-	163,433	-	1,219	-	389,423	-	-	-	389,423
		2012	230,233	-	188,114	-	2,019	-	420,366	-	-	1,707,561	2,127,927
		2013	331,255	-	394,169	8,159	2,286	-	735,869	-	-	67,408	803,277
		2014	249,732	-	300,268	14,619	2,286	-	566,905	-	-	1,789,552	2,356,457
		2015	113,091	-	436,909	10,873	3,708	-	564,581	-	-	228,530	793,110
		2016	88,658	-	461,342	12,426	3,708	-	566,134	-	-	90,825	656,959
			$ 1,461,496	**$ -**	**$ 2,101,568**	**$ 47,152**	**$ 16,712**	**$ -**	**$ 3,626,929**	**$ -**	**$ -**	**$ 3,883,876**	**$ 7,510,804**
Pierce, William	**Other - Pharmacology**	2010	$ -	$ -	$ 300,000	$ -	$ 774	$ -	$ 300,774	$ -	$ -	$ -	$ 300,774
		2011	-	-	296,123	-	1,188	-	297,311	-	-	-	297,311
		2012	-	-	304,992	12,000	1,238	-	318,230	-	-	-	318,230
		2013	-	-	305,297	43,000	1,188	-	349,485	-	-	84,651	434,136
		2014	737	-	312,214	12,000	1,188	-	326,139	-	-	84,717	410,856
		2015	-	1,423	320,790	12,000	1,188	-	335,401	-	-	83,064	418,466
		2016	-	1,304	325,531	12,000	2,286	-	341,121	-	-	76,304	417,425
			$ 737	**$ 2,727**	**$ 2,164,947**	**$ 91,000**	**$ 9,050**	**$ -**	**$ 2,268,461**	**$ -**	**$ -**	**$ 328,736**	**$ 2,597,197**
Miller, Kevin	**Athletics**	2010	$ -	$ -	$ 200,700	$ 4,800	$ 774	$ -	$ 206,274	$ -	$ -	$ -	$ 206,274
		2011	-	-	203,711	6,000	1,188	-	210,899	-	-	-	210,899
		2012	-	-	207,921	6,000	1,188	-	215,109	-	-	219,534	434,643
		2013	-	-	217,057	6,000	1,488	-	224,545	-	-	144,993	369,538
		2014	-	-	237,393	6,000	1,188	-	244,581	-	-	139,133	383,714
		2015	-	-	254,815	6,000	1,188	-	262,003	-	-	139,998	402,001
		2016	-	-	262,237	6,000	2,286	-	270,523	-	-	136,663	407,186
			$ -	**$ -**	**$ 1,583,833**	**$ 40,800**	**$ 9,300**	**$ -**	**$ 1,633,933**	**$ -**	**$ -**	**$ 780,321**	**$ 2,414,255**
Simpson, Rebecca	**Communication & Marketing**	2011	$ 126,989	$ 400	$ 18,750	$ -	$ 516	$ -	$ 146,655	$ -	$ -	$ -	$ 146,655
		2012	112,500	600	113,700	-	1,238	-	228,038	-	-	-	228,038
		2013	-	17,550	230,625	-	1,188	-	249,363	-	-	-	249,363
		2014	-	23,813	239,794	-	1,188	-	264,795	-	-	-	264,795
		2015	-	12,000	246,988	-	1,188	-	260,176	-	-	-	260,176
		2016	-	12,000	250,638	-	1,188	-	263,826	-	-	336,864	600,690
			$ 239,489	**$ 66,363**	**$ 1,100,495**	**$ -**	**$ 6,506**	**$ -**	**$ 1,412,853**	**$ -**	**$ -**	**$ 336,864**	**$ 1,749,717**
Howarth, Susan	**Finance**	2010	$ 10,990	$ -	$ 111,116	$ -	$ 270	$ -	$ 122,376	$ -	$ -	$ -	$ 122,376
		2011	11,419	-	115,456	-	270	-	127,145	-	-	-	127,145
		2012	11,695	-	118,255	-	414	-	130,364	-	-	-	130,364
		2013	15,412	-	138,375	4,000	414	-	158,202	-	-	27,422	185,623
		2014	-	-	204,000	52,000	414	-	256,414	-	-	-	256,414
		2015	-	-	212,160	12,000	414	-	224,574	-	-	45,292	269,866
		2016	-	-	216,320	12,625	414	-	229,359	-	-	48,526	277,885
			$ 49,516	**$ -**	**$ 1,115,682**	**$ 80,625**	**$ 2,610**	**$ -**	**$ 1,248,434**	**$ -**	**$ -**	**$ 121,239**	**$ 1,369,673**

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Other Employees with UHI Compensation

Employee	Department	Year	ULF Salary[1,2,3]	ULF XPAY[1,2,4]	UofL Salary[1,2,5]	UofL XPAY[1,2,6]	Other UofL Compensation[7]	Other[1,2]	Total UofL / ULF Compensation	UHI[8]	ULF Subsidiaries[9]	Minerva / DCPA[10]	Total Compensation
Inman, Keith	**Advancement**	2010	$ 281,200	$ 12,000	$ -	$ -	$ 774	$ -	$ 293,974	$ -	$ -	$ -	$ 293,974
		2011	288,230	17,549	-	-	774	-	306,553	-	-	-	306,553
		2012	295,260	47,233	-	-	824	-	343,317	28,120	-	-	371,437
		2013	302,641	32,770	-	-	774	-	336,186	-	-	-	336,186
		2014	316,224	80,012	-	-	4,601	-	400,837	-	-	-	400,837
		2015	327,261	66,371	-	-	1,188	-	394,820	-	-	-	394,820
		2016	332,097	17,507	-	-	1,581	-	351,185	-	-	-	351,185
			$ 2,142,912	**$ 273,444**	**$ -**	**$ -**	**$ 10,517**	**$ -**	**$ 2,426,873**	**$ 28,120**	**$ -**	**$ -**	**$ 2,454,993**
Gailar, Steven	**MetaCyte**	2010	$ 241,200	$ 12,000	$ -	$ -	$ 1,188	$ -	$ 254,388	$ -	$ -	$ -	$ 254,388
		2011	243,600	6,000	-	-	2,286	-	251,886	6,000	-	-	257,886
		2012	248,400	6,000	-	-	2,286	-	256,686	12,000	-	-	268,686
		2013	123,600	6,000	-	-	1,143	-	130,743	6,000	-	-	136,743
			$ 856,800	**$ 30,000**	**$ -**	**$ -**	**$ 6,903**	**$ -**	**$ 893,703**	**$ 24,000**	**$ -**	**$ -**	**$ 917,703**
Razavi, Aria	**Office of the President**	2010	$ 7,540	$ -	$ 67,861	$ -	$ 118	$ -	$ 75,519	$ 18,000	$ -	$ -	$ 93,519
		2011	7,531	-	67,783	-	180	-	75,494	18,000	-	-	93,494
		2012	7,763	-	69,864	-	234	-	77,861	18,000	-	-	95,861
		2013	30,715	7,500	77,789	-	254	-	116,259	18,360	-	-	134,619
		2014	31,740	15,000	72,250	-	270	-	119,260	18,907	-	-	138,167
		2015	32,605	16,750	74,220	-	270	-	123,846	19,381	-	-	143,226
		2016	33,575	18,500	76,427	-	414	-	128,916	14,849	-	-	143,765
			$ 151,469	**$ 57,750**	**$ 506,195**	**$ -**	**$ 1,740**	**$ -**	**$ 717,154**	**$ 125,496**	**$ -**	**$ -**	**$ 842,650**
Smith, Trisha	**Office of the President**	2010	$ 63,719	$ 6,000	$ 111	$ -	$ 72	$ -	$ 69,902	$ 12,000	$ -	$ -	$ 81,902
		2011	63,457	8,605	-	-	83	-	72,145	12,000	-	-	84,145
		2012	65,595	11,366	-	-	134	-	77,095	12,000	-	-	89,095
		2013	77,981	19,283	29,121	-	144	-	126,528	12,240	-	-	138,768
		2014	99,788	25,466	-	-	160	-	125,414	12,605	-	-	138,020
		2015	102,509	20,398	-	-	162	-	123,069	12,921	-	-	135,989
		2016	105,557	20,687	-	-	305	-	126,548	9,899	-	-	136,448
			$ 578,605	**$ 111,805**	**$ 29,232**	**$ -**	**$ 1,060**	**$ -**	**$ 720,702**	**$ 83,665**	**$ -**	**$ -**	**$ 804,367**
Briscoe, Ellen	**Finance**	2010	$ 121,200	$ -	$ -	$ -	$ 774	$ -	$ 121,974	$ -	$ -	$ -	$ 121,974
		2011	121,800	-	-	-	774	-	122,574	6,000	-	-	128,574
		2012	124,800	-	-	-	824	-	125,624	16,500	-	-	142,124
		2013	126,072	-	-	-	1,188	-	127,260	24,240	-	-	151,500
		2014	130,473	-	-	-	1,188	-	131,661	24,480	-	-	156,141
		2015	55,167	-	-	-	495	-	55,662	10,200	-	-	65,862
			$ 679,512	**$ -**	**$ -**	**$ -**	**$ 5,243**	**$ -**	**$ 684,755**	**$ 81,420**	**$ -**	**$ -**	**$ 766,175**
McDaniel, Ryan Christopher	**Office of the President**	2010	$ 47,925	$ -	$ -	$ -	$ 31	$ -	$ 47,956	$ 12,000	$ -	$ -	$ 59,956
		2011	58,870	-	-	-	49	-	58,919	18,000	-	-	76,919
		2012	60,940	-	-	-	116	-	61,056	12,000	-	-	73,056
		2013	74,820	5,000	-	-	85	-	79,905	12,240	-	-	92,145
		2014	73,528	10,000	-	-	93	-	83,621	12,605	-	-	96,226
		2015	75,533	11,250	-	-	96	-	86,879	12,921	-	-	99,800
		2016	77,778	12,500	-	-	100	-	90,379	9,899	-	-	100,278
			$ 469,394	**$ 38,750**	**$ -**	**$ -**	**$ 571**	**$ -**	**$ 508,715**	**$ 89,665**	**$ -**	**$ -**	**$ 598,380**

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Other Employees with UHI Compensation													
Employee	**Department**	**Year**	**ULF Salary[1,2,3]**	**ULF XPAY[1,2,4]**	**UofL Salary[1,2,5]**	**UofL XPAY[1,2,6]**	**Other UofL Compensation[7]**	**Other[1,2]**	**Total UofL / ULF Compensation**	**UHI[8]**	**ULF Subsidiaries[9]**	**Minerva / DCPA[10]**	**Total Compensation**
Lapadat-Tapolsky, Mary	**Nucleus**	2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 53,017	$ -	$ -	$ 53,017
		2011	-	-	-	-	-	-	-	-	67,278	-	67,278
		2012	-	-	-	-	-	-	-	-	72,169	-	72,169
		2013	-	-	-	-	-	-	-	-	71,337	-	71,337
		2014	-	-	-	-	-	-	-	-	72,215	-	72,215
		2015	-	-	-	-	-	-	-	-	72,980	-	72,980
		2016	-	-	-	-	-	-	-	-	81,400	-	81,400
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 53,017**	**$ 437,379**	**$ -**	**$ 490,395**
Dougherty, Debra K.	**Office of the President**	2010	$ 13,300	$ -	$ 37,853	$ 1,000	$ 135	$ -	$ 52,288	$ 12,000	$ -	$ -	$ 64,288
		2011	13,183	-	37,520	-	139	-	50,842	15,000	-	-	65,842
		2012	13,690	2,500	38,963	-	194	-	55,346	18,000	-	-	73,346
		2013	13,645	-	38,836	-	150	-	52,631	18,360	-	-	70,991
		2014	6,957	-	57,298	-	217	-	64,472	9,360	-	-	73,832
		2015	-	-	75,000	1,719	516	-	77,235	-	-	-	77,235
		2016	8,396	-	50,749	-	376	-	59,522	-	-	-	59,522
			$ 69,170	**$ 2,500**	**$ 336,219**	**$ 2,719**	**$ 1,727**	**$ -**	**$ 412,335**	**$ 72,720**	**$ -**	**$ -**	**$ 485,055**
Wadwell, Kerry	**Nucleus**	2010	$ 46,200	$ -	$ -	$ -	$ 72	$ -	$ 46,272	$ 7,000	$ -	$ -	$ 53,272
		2011	19,449	-	-	-	24	-	19,473	2,000	49,667	-	71,140
		2012	-	-	-	-	-	-	-	-	63,212	-	63,212
		2013	-	-	-	-	-	-	-	-	62,462	-	62,462
		2014	-	-	-	-	-	-	-	-	66,215	-	66,215
		2015	-	-	-	-	-	-	-	-	66,601	-	66,601
		2016	-	-	-	-	-	-	-	-	65,412	-	65,412
			$ 65,649	**$ -**	**$ -**	**$ -**	**$ 96**	**$ -**	**$ 65,745**	**$ 9,000**	**$ 373,568**	**$ -**	**$ 448,313**
Davis, John Paul	**Advancement**	2010	$ 57,867	$ 833	$ -	$ -	$ 46	$ -	$ 58,746	$ -	$ -	$ -	$ 58,746
		2011	65,975	3,000	-	-	59	-	69,034	2,000	-	-	71,034
		2012	71,413	6,000	-	-	132	-	77,544	-	-	-	77,544
		2013	81,600	6,000	-	75	108	-	87,783	-	-	-	87,783
		2014	55,711	3,300	38,838	-	313	-	98,161	-	-	-	98,161
			$ 332,566	**$ 19,133**	**$ 38,838**	**$ 75**	**$ 657**	**$ -**	**$ 391,269**	**$ 2,000**	**$ -**	**$ -**	**$ 393,269**
Maldonado, Manuel M	**Other - Research**	2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 358,513	$ -	$ -	$ 358,513
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 358,513**	**$ -**	**$ -**	**$ 358,513**
Robertson, Jacob	**Finance**	2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,500	$ 6,586	$ -	$ 34,086
		2011	-	-	-	-	-	-	-	-	39,509	-	39,509
		2012	-	-	-	-	-	-	-	3,000	39,560	-	42,560
		2013	-	-	-	-	-	-	-	9,500	39,329	-	48,829
		2014	-	-	-	-	-	-	-	12,040	43,703	-	55,743
		2015	-	-	-	-	-	-	-	12,000	55,711	-	67,711
		2016	-	-	-	-	-	-	-	9,000	60,420	-	69,420
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 73,040**	**$ 284,819**	**$ -**	**$ 357,859**

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ULF Compensation Analysis

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Other Employees with UHI Compensation

Employee	Department	Year	ULF Salary[1,2,3]	ULF XPAY[1,2,4]	UofL Salary[1,2,5]	UofL XPAY[1,2,6]	Other UofL Compensation[7]	Other[1,2]	Total UofL / ULF Compensation	UHI[8]	ULF Subsidiaries[9]	Minerva / DCPA[10]	Total Compensation
Ruhl, Justin	**Finance**	2013	$ 57,500	$ -	$ -	$ -	$ 70	$ -	$ 57,570	$ -	$ -	$ -	$ 57,570
		2014	85,810	300	-	-	101	-	86,211	-	-	-	86,211
		2015	83,803	600	-	-	475	-	84,878	-	-	-	84,878
		2016	93,943	300	-	-	64	-	94,307	8,258	-	-	102,565
			$ 321,056	**$ 1,200**	**$ -**	**$ -**	**$ 711**	**$ -**	**$ 322,967**	**$ 8,258**	**$ -**	**$ -**	**$ 331,225**
Hamilton, Mary	**MetaCyte**	2010	$ 808	$ -	$ 4,431	$ -	$ -	$ -	$ 5,239	$ 4,070	$ -	$ -	$ 9,309
		2011	-	-	4,660	-	-	-	4,660	6,287	-	-	10,947
		2012	-	-	3,544	-	-	-	3,544	-	18,379	-	21,923
		2013	-	-	-	-	-	-	-	-	44,101	-	44,101
		2014	-	-	-	-	-	-	-	-	41,247	-	41,247
			$ 808	**$ -**	**$ 12,635**	**$ -**	**$ -**	**$ -**	**$ 13,443**	**$ 10,357**	**$ 103,727**	**$ -**	**$ 127,527**
Rai, Satish	**Nucleus**	2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 62,500	$ -	$ -	$ 62,500
		2011	-	-	-	-	-	-	-	-	31,784	-	31,784
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 62,500**	**$ 31,784**	**$ -**	**$ 94,284**
Stallings, Christopher	**UHI**	2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 31,250	$ -	$ -	$ 31,250
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 31,250**	**$ -**	**$ -**	**$ 31,250**
LaMunyon, Tristen	**Other - Neurological**	2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,161	$ -	$ -	$ 7,161
		2012	-	-	-	-	-	4,305	4,305	-	-	-	4,305
		2013	-	-	3,384	-	-	-	3,384	-	-	-	3,384
			$ -	**$ -**	**$ 3,384**	**$ -**	**$ -**	**$ 4,305**	**$ 7,689**	**$ 7,161**	**$ -**	**$ -**	**$ 14,850**
Rapson, Kaitlin	**Foundation**	2013	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,872	$ -	$ -	$ 7,872
		2014	-	-	-	-	-	-	-	6,432	-	-	6,432
			$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 14,304**	**$ -**	**$ -**	**$ 14,304**
Landgrave, John	**Other - Engineering**	2011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,480	$ -	$ -	$ 7,480
		2012	-	-	100	-	-	-	100	-	-	-	100
		2013	-	-	208	-	-	-	208	-	-	-	208
		2014	-	-	3,750	-	-	-	3,750	-	-	-	3,750
			$ -	**$ -**	**$ 4,058**	**$ -**	**$ -**	**$ -**	**$ 4,058**	**$ 7,480**	**$ -**	**$ -**	**$ 11,538**

Procedures & Findings Report
ULF Compensation Analysis
Exhibit 19

***Notes*:**
1) Represents gross compensation recorded in payroll general 511xxx series accounts.
2) Payroll recorded to fund codes 1020, 1023, 1026, 13xx series, 14xx series, 1600 and 1615 is presented as ULF compensation. Payroll recorded to fund codes 1065 (Funds Held in Trust for Others) and 1500 (Cardiovascular Innovative Institute) is presented as other compensation. Payroll recorded to all other fund codes is presented as UofL compensation.
3) Represents the employee's total gross ULF compensation recorded to payroll general ledger accounts with an additional pay earn code other than XPY or XBN.
4) Represents the employee's total gross ULF compensation recorded to payroll general ledger accounts with an additional pay earn code of XPY or XBN.
5) Represents the employee's total gross UofL compensation recorded to payroll general ledger accounts with an additional pay earn code other than XPY or XBN.
6) Represents the employee's total gross UofL compensation recorded to payroll general ledger accounts with an additional pay earn code of XPY or XBN.
7) Represents amounts recorded to UofL Form W-2 Box 12, reason code C, and Box 14, identified by A&M as compensation beyond that which was captured as gross payroll recorded to the general ledger.
8) Represents wages reported in Box 5 of Forms W-2 issued by UHI.
9) Represents wages reported in Box 5 of Forms W-2 issued by Empower HR, LLC and Empower Inc. Empower HR, LLC and Empower Inc. reflect taxable wages associated with compensation from ULF Subsidiaries, ULREF, and ULREF Subsidiaries.
10) Represents wages reported in Box 5 of Forms W-2 issued by Minerva-Louisville, LLC for the calendar years 2012 through 2014 and Forms W-2 issued by DCPA, LLC for the calendar years 2015 and 2016, as well as interest income reported on Form 1099-INT issued by DCPA, LLC for the calendar year 2016.

Exhibit 20

DOC#: B0000035136

To: Smith,Kathleen McDaniel[kathleen.smith@louisville.edu]
From: Saffer, David
Sent: Wed 9/18/2013 7:49:46 PM
Subject: RE: confidential and advisory and preliminary

I will think about this and get back to you. One thing I know now is that CRE is UHI. The name was changed in 2008 from CRE to UHI. Back to you soon. Thanks.

From: Smith,Kathleen McDaniel [mailto:kathleen.smith@louisville.edu]
Sent: Wednesday, September 18, 2013 1:54 PM
To: Saffer, David
Subject: confidential and advisory and preliminary

Larry Owsley is being forced into retirement, and we offered him 6 additional months if he would sign a non-disparaging clause with damages if discovered that he was damaging the University's or the Foundation's reputation. Shirley is ready to fire him. With this context, I do not feel that we are protected from Larry trying to inundate us with ORRs through an Andy Wolfson or some other reporter. We need to protect UHI and Minerva. Can we use CRE instead of UHI now or did CRE morph into UHI? I would like to make the paper trail to our holdings as obscure as possible to Larry and his staff. I do think he may be out for revenge. He does not think the University can get along without him, and we have already replaced him. We are moving to a separate staff for the UofL Foundation accounting etc. and moving them to Cardinal Station. But, I don't see us moving this along fast enough. So, organizationally, please think about how we can move our LLCs into something more obscure that would be difficult to find through ORRs. Case in point is the Cardinal Club and the LLC it becomes. I don't know if Larry knows about UHI, but I'm betting he does. I also think the recent ORR from Andy Wolfson was just the start of the type of inquiries we will get when Larry is gone. And Andy Wolfson is not known for his objective reporting.

Please think about it and help me move quickly to protect all that we have done. We are so close to receiving benefit for the risk that we have taken over the years, I really do not want to see the newspaper slam us.

Kathleen

Exhibit 21

To: kathleen.smith@louisville.edu[kathleen.smith@louisville.edu]
From: Saffer, David
Sent: Fri 2/13/2015 5:08:33 AM
Importance: Normal
Subject: Re: ORR ULF 15-005 KCIR (KGoetz)
Received: Fri 2/13/2015 5:08:38 AM

I don't think so because it shows up in the 990.

On Feb 12, 2015, at 11:24 PM, "kathleen.smith@louisville.edu" <kathleen.smith@louisville.edu> wrote:

> Any way to keep UHI out of this request?
>
>
> Sent via the Samsung Galaxy Note® 4, an AT&T 4G LTE smartphone
>
>
> -------- Original message --------
> From: k.martin@louisville.edu
> Date: 02/12/2015 3:27 PM (GMT-05:00)
> To: "Schenck, Kelley Rosenbaum (kschenck@stites.com)" <kschenck@stites.com>
> Cc: "Smith,Kathleen McDaniel (kathleen.smith@louisville.edu)" <kathleen.smith@louisville.edu>
> Subject: RE: ORR ULF 15-005 KCIR (KGoetz)
>
> Good afternoon Kelley:
> Today, Thursday, February 12, 2015, the Foundation received a request from the Kentucky Center for Investigative Reporting (KCIR). Ms. Kristina Goetz, of KCIR, is requesting information based on the attached scanned document.
>
> She is specifically requesting that the following documents be made available for inspection:
>
> -   All employment contracts that show compensation (including bonuses and deferred compensation) for the following people from 2002 to the present date:
>
> o   Donald M. Miller
>
> o   James Ramsey
>
> o   Shirley Willihnganz
>
> o   Kathleen Smith
>
> o   Ronald Miller
>
> o   Thomas Jurich
>
> o   Vickie Yates Brown
>
>
>
> -   A detailed breakdown of what is included in each category (B through F) of the Schedule J, Part II section of the From 990 beginning 7/1/2012 and ending 6/30/2013 for each employee listed (above.)
>
> o   This includes:
>
> § Housing and car allowances
>
> § Gym and Country Club Memberships
>
> § Additional Insurance
>
> § And any other benefit
>
> -   Differentiate the two amounts provided in category B(i), base compensation for Kathleen Smith
>
> -   Provide a detailed explanation of what is included in B(iii) (other reportable compensation) as opposed to C (retirement and other deferred compensation).
>
>

> Ms. Goetz also adds, “Please provide this document in electronic format as it is available and inform me of any costs associated with this request before they are incurred."
>
> Could you work on preparing a response letter? As always, thank you for your assistance.
>
> Best regards,
> Kenyatta
>
> Kenyatta N. Martin
> Open Records Custodian
> University of Louisville Foundation
> Grawemeyer Hall
> Louisville, KY 40292
> Office - (502) 852-6141
> Email - k.martin@louisville.edu<mailto:k.martin@louisville.edu>
>
>
> Attachment – (1)
>
> <ORR ULF15-005_KCIR-KGoetz.pdf>

Exhibit 22

Procedures & Findings Report
Deferred Compensation Analysis
Exhibit 22

Participant	Activity	LTD 12/31/11	CY2012	CY2013	CY2014	CY2015	CY2016	LTD 12/31/16
Ramsey, James	Private Option Plan Grants[1]	$ 150,000	$ -	$ -	$ -	$ -	$ -	$ 150,000
	KEDCA Grants[2]	585,971	75,000	75,000	575,000	325,000	325,000	1,960,971
	Retention Bonus[3]	-	1,000,000					1,000,000
	Deferred Bonuses[4]	-	150,000	150,000	156,000	162,240	-	618,240
	Total Contributions	**$ 735,971**	**$ 1,225,000**	**$ 225,000**	**$ 731,000**	**$ 487,240**	**$ 325,000**	**$ 3,729,211**
	Vested Contributions[5]	$ 662,725	$ 1,298,246	$ 225,000	$ 731,000	$ 487,240	$ 325,000	$ 3,729,211
	Vested Earnings[6]	193,119	127,485	219,759	307,166	166,119	137,978	1,151,626
	Total Vested Deferred Compensation	855,844	1,425,731	444,759	1,038,166	653,359	462,978	4,880,837
	Tax Gross-Up[7,9]	740,798	932,815	499,753	867,073	558,903	281,312	3,880,655
	Total Plan Cost[8]	**$ 1,596,641**	**$ 2,358,546**	**$ 944,512**	**$ 1,905,240**	**$ 1,212,262**	**$ 744,290**	**$ 8,761,492**
	Distributions	$ -	$ 1,000,000	$ -	$ -	$ -	$ 3,546,056	$ 4,546,056
Willihnganz, Shirley	Private Option Plan Grants[1]	$ 100,000	$ -	$ -	$ -	$ -	$ -	$ 100,000
	KEDCA Grants[2]	813,903	350,000	50,000	200,000	-	-	1,413,903
	Total Contributions	**$ 913,903**	**$ 350,000**	**$ 50,000**	**$ 200,000**	**$ -**	**$ -**	**$ 1,513,903**
	Vested Contributions[5]	$ 213,903	$ 700,000	$ 50,000	$ 350,000	$ 200,000	$ -	$ 1,513,903
	Vested Earnings[6]	115,858	545,563	114,119	181,731	118,428	79,658	1,155,357
	Total Vested Deferred Compensation	329,761	1,245,563	164,119	531,731	318,428	79,658	2,669,260
	Tax Gross-Up[7,9]	290,360	522,894	164,342	440,955	280,381	-	1,698,932
	Total Plan Cost[8]	**$ 620,121**	**$ 1,768,457**	**$ 328,461**	**$ 972,686**	**$ 598,809**	**$ 79,658**	**$ 4,368,192**
	Distributions	$ -	$ -	$ 300,000	$ -	$ -	$ 2,085,268	$ 2,385,268
Miller, Donald	Predated Contributions[10]	$ 1,000,000	$ -	$ -	$ -	$ -	$ -	$ 1,000,000
	Total Contributions	**$ 1,000,000**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,000,000**
	Vested Contributions[5]	$ -	$ 1,000,000	$ -	$ -	$ -	$ -	$ 1,000,000
	Vested Earnings[6]	-	707,561	67,408	199,423	121,525	90,825	1,186,742
	Total Vested Deferred Compensation	-	1,707,561	67,408	199,423	121,525	90,825	2,186,742
	Tax Gross-Up[7,10]	-	-	-	1,590,129	107,005	-	1,697,134
	Total Plan Cost[8]	**$ -**	**$ 1,707,561**	**$ 67,408**	**$ 1,789,552**	**$ 228,530**	**$ 90,825**	**$ 3,883,876**
	Distributions	$ -	$ -	$ -	$ -	$ -	$ 2,153,285	$ 2,153,285
Smith, Kathleen	KEDCA Grants[2]	$ 50,000	$ 12,500	$ 12,500	$ 212,500	$ 112,500	$ 112,500	$ 512,500
	Predated Contributions[10]	503,357	-	-	-	-	-	503,357
	Deferred Bonuses[4]	-	-	43,297	33,908	-	-	77,205
	Total Contributions	**$ 553,357**	**$ 12,500**	**$ 55,797**	**$ 246,408**	**$ 112,500**	**$ 112,500**	**$ 1,093,062**
	Vested Contributions[5]	$ -	$ 565,857	$ 55,797	$ 246,408	$ 112,500	$ 112,500	$ 1,093,062
	Vested Earnings[6]	-	250,228	46,428	48,372	27,490	21,746	394,264
	Total Vested Deferred Compensation	-	816,085	102,225	294,780	139,990	134,246	1,487,326
	Tax Gross-Up[7]	-	498,384	83,385	335,589	123,263	99,058	1,139,679
	Total Plan Cost[8]	**$ -**	**$ 1,314,469**	**$ 185,610**	**$ 630,369**	**$ 263,253**	**$ 233,304**	**$ 2,627,005**
	Distributions[11]	$ -	$ -	$ 100,000	$ 660,000	$ -	$ 700,000	$ 1,460,000
Miller, Kevin	Deferred Salary[12]	$ 120,900	$ 60,900	$ 66,990	$ 66,990	$ 71,009	$ 71,009	$ 457,799
	Vested Contributions[5]	$ -	$ 181,800	$ 66,990	$ 66,990	$ 70,914	$ 71,104	$ 457,798
	Vested Earnings[6]	-	26,941	8,661	12,826	15,624	14,751	78,803
	Total Vested Deferred Compensation	-	208,741	75,651	79,816	86,538	85,855	536,601
	Tax Gross-Up[7]	-	10,793	69,342	59,317	53,460	50,808	243,720
	Total Plan Cost[8]	**$ -**	**$ 219,534**	**$ 144,993**	**$ 139,133**	**$ 139,998**	**$ 136,663**	**$ 780,321**
	Distributions[13]	$ -	$ -	$ -	$ 125,000	$ -	$ 205,000	$ 330,000
Curtin, Michael	KEDCA Grants[2]	$ 90,000	$ 60,900	$ 60,900	$ -	$ -	$ -	$ 211,800
	Vested Contributions[5]	$ -	$ 90,000	$ 60,900	$ 60,900	$ -	$ -	$ 211,800
	Vested Earnings[6]	-	20,358	5,427	76,023	-	-	101,808
	Total Vested Deferred Compensation	-	110,358	66,327	136,923	-	-	313,608
	Tax Gross-Up[7,14]	-	(1,684)	62,047	95,105	10,961	-	166,429
	Total Plan Cost[8,15]	**$ -**	**$ 108,674**	**$ 128,374**	**$ 232,028**	**$ 10,961**	**$ -**	**$ 480,037**
	Distributions	$ -	$ -	$ -	$ 265,804	$ -	$ -	$ 265,804
Simpson, Rebecca	KEDCA Grants[2]	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 150,000
	Vested Contributions[5]	$ -	$ -	$ -	$ -	$ -	$ 150,000	$ 150,000
	Vested Earnings[6]	-	-	-	-	-	29,134	29,134
	Total Vested Deferred Compensation	-	-	-	-	-	179,134	179,134
	Tax Gross-Up[7]	-	-	-	-	-	157,730	157,730
	Total Plan Cost[8]	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 336,864**	**$ 336,864**
	Distributions[16]	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Procedures & Findings Report
Deferred Compensation Analysis
Exhibit 22

Participant	Activity	LTD 12/31/11	CY2012	CY2013	CY2014	CY2015	CY2016	LTD 12/31/16
Pierce, William	KEDCA Grants[2]	$ -	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ -	$ 160,000
	Vested Contributions[5]	-	-	40,000	40,000	40,000	40,000	160,000
	Vested Earnings[6]	-	-	3,873	9,972	9,211	7,827	30,883
	Total Vested Deferred Compensation	-	-	43,873	49,972	49,211	47,827	190,883
	Tax Gross-Up[7]	-	-	40,778	34,746	33,853	28,477	137,854
	Total Plan Cost[8]	**$ -**	**$ -**	**$ 84,651**	**$ 84,717**	**$ 83,064**	**$ 76,304**	**$ 328,736**
	Distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Howarth, Susan	Deferred Salary[12]	$ -	$ 25,000	$ 25,000	$ 50,000	$ 25,000	$ -	$ 125,000
	Vested Contributions[5]	$ -	$ -	$ 25,000	$ 25,000	$ 50,000	$ 25,000	$ 125,000
	Vested Earnings[21]	-	-	3,863	4,737	4,469	6,073	19,142
	Total Vested Deferred Compensation	-	-	28,863	29,737	54,469	31,073	144,142
	Tax Gross-Up[21]	-	-	19,470	20,060	18,245	17,453	75,228
	Total Plan Cost[17]	**$ -**	**$ -**	**$ 48,333**	**$ 49,797**	**$ 72,714**	**$ 48,526**	**$ 219,371**
	Distributions	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	Private Option Plan Grants[1]	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ 250,000
	KEDCA Grants[2]	1,564,874	563,400	263,400	1,052,500	502,500	462,500	4,409,174
	Retention Bonus[3]	-	1,000,000	-	-	-	-	1,000,000
	Deferred Bonuses[4]	-	150,000	193,297	189,908	162,240	-	695,445
	Predated Contributions[10]	1,503,357	-	-	-	-	-	1,503,357
	Deferred Salary[16]	120,900	85,900	91,990	116,990	96,009	71,009	582,799
	Total Contributions	$ 3,439,131	$ 1,799,300	$ 548,687	$ 1,359,398	$ 760,749	$ 533,509	$ 8,440,774
	Vested Contributions	$ 876,628	$ 3,835,903	$ 523,687	$ 1,520,298	$ 960,654	$ 723,604	$ 8,440,774
	Vested Grossed-Up Earnings	308,978	1,678,135	469,537	840,250	462,866	387,992	4,147,759
	Total Vested Deferred Compensation	1,185,605	5,514,039	993,224	2,360,548	1,423,520	1,111,596	12,588,533
	Tax Gross-Up	1,031,158	1,963,202	939,117	3,442,975	1,186,071	634,838	9,197,360
	Non-Grossed Up Vested Earnings	-	-	-	-	-	-	-
	Total Plan Cost	**$ 2,216,763**	**$ 7,477,241**	**$ 1,932,341**	**$ 5,803,523**	**$ 2,609,591**	**$ 1,746,434**	**$ 21,785,893**
	Distributions	$ -	$ 1,000,000	$ 400,000	$ 1,050,804	$ -	$ 8,689,609	$ 11,140,415

Procedures & Findings Report

Deferred Compensation Analysis

Exhibit 22

***Sources*:**

DDAF Rollforward

DDAF W-2 Files

***Notes*:**

1) Represents amounts contributed to participant's Key Employee Deferred Compensation Account ("KEDCA" or "deferred compensation account") related to previous enrollment in the ULF Private Option Plan. These contributions were originally offered as securities to be purchased by ULF and sold to the participant at a discounted price under the Private Option Plan. The Second Amendment to Dr. Ramsey's Employment Agreement with ULF dated July 1, 2007, called for the value of these unredeemed securities to be credited as "two separate options of deferred compensation" of $75 thousand on July 1, 2003, and July 1, 2004. A December 12, 2007 employment letter from Dr. Ramsey to Dr. Willihnganz describes "annual contributions of $50 thousand, commencing July 1, 2004 continued through December 31, 2005 in the Private Option Plan when the plan ended." Review of deferred compensation agreements indicate these grants were grossed-up for all applicable tax withholdings upon vesting.

2) Represents recurring or one-time grants contributed to the participant's KEDCA.

3) Represents a $1 million bonus, payable in ten equal annual installments of $100 thousand each, beginning July 31, 2012, as provided under Section 4.6 of the First Amendment to Dr. Ramsey's employment agreement with ULF, dated July 1, 2005. The agreement called for ULF to pay Dr. Ramsey an amount equal to the federal and state taxes payable on this bonus as of the July 31, 2012, vesting date. It is A&M's understanding this bonus is being paid or has been paid through an annuity purchased by ULF and future amounts payable on this bonus have not been reflected in Dr. Ramsey's deferred compensation account balance at any time. Accordingly, earnings have not been accrued on any amounts outstanding on this retention bonus at any time. In order to maintain consistency with deferred compensation reporting previously prepared by DDAF, A&M has presented this $1 million bonus as distributed entirely in 2012.

4) Represents UofL and ULF bonuses awarded as deferred compensation grants to the participant's deferred compensation account. Review of relevant agreements and approvals indicate these amounts immediately vested and grossed-up for all applicable tax withholdings.

5) Vesting period was determined through review of relevant deferred compensation agreements.

6) Vested earnings were determined as follows, unless otherwise noted:

a. Prior to 2013, calculated using the DDAF Rollforward.

b. 2013, calculated as the difference between amounts reported as total 2013 vested account activity (contributions and earnings) in the DDAF W-2 Files and vested contributions identified through review of relevant Plan agreements.

c. 2014 and 2015, as identified through review of DDAF W-2 Files.

d. 2016, as identified through review of DDAF W-2 Files, plus amounts reported on 2016 1099-INT issued by DCPA. Beginning in fiscal year 2016, ULF discontinued tax gross-ups of earnings on vested contributions and ULF began reporting these earnings to Plan participants on Form 1099-INT.

7) Represents the difference between the Plan participant's annual deferred compensation taxable wages and total vested deferred compensation. Per discussions with DDAF, tax gross-ups vary as a percentage of W-2 wages due to adjustments required in subsequent years resulting from over- or under-estimation of the Plan participant's tax liability in the year of vesting.

8) Total Plan Cost represents the Plan participant's total taxable wages for the calendar year, which includes amounts reported on Form W-2 and Form 1099-INT, where available or unless otherwise noted.

9) Dr. Ramsey and Dr. Willihnganz are the only Plan participants for which A&M has identified vested deferred compensation prior to 2012. Because neither ULF or DDAF were able to produce tax reporting prior to 2012, A&M calculated life-to-date 12/31/2011 Total Plan Cost by applying DDAF's tax gross-up factor, the rate applied to vested activity in order to calculate gross W-2 wages, to total vested activity identified in the DDAF Rollforward. In these instances, A&M calculated tax gross-up as the difference between total vested activity and Total Plan Cost.

10) Represents ULF awarded contributions with an effective date prior to the Participation Agreement date. In these instances, the Plan participant's balance as of the date of his or her agreement reflected earnings accrued at the deemed interest rate since the effective date of the contribution. Dr. Miller's June 5, 2008, Participation Agreement authorizes an initial $1 million contribution of deferred compensation, effective July 1, 2006. This initial $1 million contribution was not eligible for tax gross-up under the terms of Dr. Miller's June 5, 2008, Participation Agreement. Upon vesting in 2012, ULF agreed to offer a tax-gross up on all of Dr. Miller's deferred compensation, with the tax gross-up and all related earnings vesting in 2014. A&M identified these tax gross-up amounts through review of the DDAF Rollforward and included them as a component of tax gross-up in their year of vesting. Ms. Smith's June 5, 2008, Participation Agreement authorizes an initial $450 thousand contribution of deferred compensation, made effective September 1, 2007. Ms. Smith's 2011 Predated Contributions include $53 thousand described as "an additional one time grant" in the First Amendment to her Participation Agreement dated September 29, 2011. Mike Harbold, DDAF Associate Director of Tax Services, provided email communication dated September 21, 2011, in which Ms. Smith asks Bob Montgomery, Former DDAF Director of Tax Services, "what is the notional interest on $50K since March 8, 2010? Please figure what I have lost so I can adjust the new agreement." It is A&M's understanding this grant was meant to reflect a $50 thousand contribution effective March 8, 2010, plus the earnings that would have accrued at the Deemed Interest Rate between March 8, 2010, and the September 29, 2011, contribution date.

11) DDAF previously reported Kathleen Smith's LTD 2/28/17 distributions as $1.5 million. DDAF provided distribution requests for a total of $1.5 million in response to A&M's request for all available distribution requests.

12) Represents UofL and ULF salary increases paid to the employee as a contribution to his or her deferred compensation account, in the year contributed to the participant's account. In these instances, it is A&M's understanding the employee was offered the option of taking the additional compensation as an increase to his or her salary or as a recurring contribution to a deferred compensation account and chose the deferred compensation option. Review of relevant agreements and approvals indicate these amounts were immediately vested and grossed-up for all applicable tax withholdings.

13) DDAF previously reported Mr. Miller's life-to-date February 28, 2017, distributions as $555 thousand. The distribution not reflected in this schedule was requested January 5, 2017, and does not fall within the timeframe presented in this schedule.

14) A&M calculated Mr. Curtin's 2012 vested earnings and contributions as being in excess of wages reported on his 2012 Minerva-Louisville, LLC Form W-2. A&M believes this is due to timing differences that would have interfered with earnings accrued in late 2012 being reflected on Mr. Curtin's 2012 Form W-2.

15) Per discussions with DDAF, 2015 Total Plan Cost represents additional tax gross-up to correct for DDAF underestimating Mr. Curtin's 2014 tax liability.

16) DDAF previously reported Ms. Simpson's life-to-date February 28, 2017, distributions as $181,073. Ms. Simpson's lone distribution was requested January 12, 2017, and does not fall within the time frame presented in this schedule.

17) DDAF described taxation of Ms. Howarth's $25 thousand contributions vested in 2013 and 2014 as having been deferred until withdrawal, due to having fallen under a dollar threshold allowing this treatment. Accordingly, DDAF did not prepare DDAF W-2 Files for Ms. Howarth during these years and A&M calculated vested earnings using the DDAF Rollforward. Further, A&M calculated 2013 and 2014 Total Plan Cost by applying DDAF's gross-up factor to total vested activity. A&M calculated tax gross-up in these years as the difference between total vested activity and Total Plan Cost. A&M used this approach in order to present Total Plan Cost consistent with other Plan participant's during these years. In calendar years 2015 and 2016, A&M calculated Total Plan Cost using the DDAF W-2 Files, consistent with other Plan participants, with the exception of adding back a $27 thousand credit against Ms. Howarth's 2015 wages for amounts DDAF believed were incorrectly reported on a W-2 issued to Ms. Howarth as deferred compensation taxable wages in 2013.

Montgomery, C. Robert

From: Montgomery, C. Robert
Sent: Wednesday, September 21, 2011 12:19 PM
To: 'Kathleen M Smith'
Cc: Montgomery, C. Robert
Subject: RE: Notional

Kathleen,

The difference through June 30, 2011 was $3,587. That is the latest date for which the interest rate has been determined.

Bob

-----Original Message-----
From: Kathleen M Smith [mailto:kathleen.smith@louisville.edu]
Sent: Wednesday, September 21, 2011 11:58 AM
To: Montgomery, C. Robert
Subject: Notional

Bob, what is the notional interest on $50K since March 8, 2010? Please figure what I have lost so I can adjust the new agreement. Thanks.

Exhibit 23

From: "Helm III, Kennedy" <KHELMIII@stites.com>
To: "Kathleen M Smith" <kimcda01@gwise.louisville.edu>
Date: 2/18/2008 1:20 PM
Subject: FW: Personal and confidential--Advisory

-----Original Message-----
From: Kathleen M Smith [mailto:kathleen@louisville.edu]
Sent: Friday, February 15, 2008 3:55 PM
To: Helm III, Kennedy
Subject: Personal and confidential--Advisory

Kennedy, here are the elements of my Participation Agreement with the Foundation as described to me by Chester and Jim.

1. As of August 31, 2007, $450,000 would be deposited in a Deferred Compensation Plan participation account for me to reflect my 36 years of service as a key employee and each subsequent year, on July 1, $12,500 would be deposited into this account to retain my service until July 1, 2012. The deposits would be made on 7/1/08, 7/1/09, 7/1/10, 7/1/11.

2. The amount in the account would appreciate annually by an equivalent amount as the endowment's portfolio, e.g., if the endowment appreciated 18%, the amount in my account would appreciate by 18%, if in subsequent year it was 11% then the appreciation of my account would be 11%.

3. The amount in the account would be indemnified for tax liabilities, i.e., the amount in my account as of 6/30/2012 would be the amount I would receive net of taxes. Chester and Jim have indicated the taxes would be paid by the Foundation.

[redacted] Redacted

Kennedy, Chester asked me to follow up with you directly about this several times. He said that if you have any questions, please give him a call. I just had so much on my plate that I did not have time to send you this note.

I have looked at the other participation agreements that Ben Sanders sent over and have a few changes. I'll send him some e-mails to correct these and I think we can call this action completed.

Last item, how can we keep these participation agreements from being subject to ORR. I am certain that Dr. Ramsey does not want any of these to end up in the hands of the C-J. Is there any belt and suspenders approach we can use.

Thanks for all your help.

Kathleen

Exhibit 24

Message

From: Smith,Kathleen McDaniel [/O=UOFL EXCHANGE/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=KIMCDA01]
Sent: 3/31/2014 1:13:29 AM
To: Saffer, David [dsaffer@stites.com]
Subject: RE: ORR ULF 13-016 (KCIR)

I follow. Needs to be letters. Thought taking the vowels out of Minerva could work too. I'm fine with either but needs to be difficult to figure out for media. K

Sent from Samsung Mobile

-------- Original message --------
From: "Saffer, David" <dsaffer@stites.com>
Date: 03/30/2014 8:46 PM (GMT-05:00)
To: "Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>,"Sanders, Ben" <BSanders@stites.com>
Subject: RE: ORR ULF 13-016 (KCIR)

I picked DCPA, LLC for deferred compensation program administrator. Let's noodle on it.

From: Smith,Kathleen McDaniel [mailto:kathleen.smith@louisville.edu]
Sent: Sunday, March 30, 2014 1:59 PM
To: Saffer, David; Sanders, Ben; Smith,Kathleen McDaniel
Subject: RE: ORR ULF 13-016 (KCIR)

We all need to worry. Let's go with a new letter corporation. We should try to find something that all of us can remember. What about MNVRA.LLC.

Sent from Samsung Mobile

-------- Original message --------
From: "Saffer, David" <dsaffer@stites.com>
Date: 03/30/2014 1:49 PM (GMT-05:00)

To: "Sanders, Ben" <BSanders@stites.com>,"Smith,Kathleen McDaniel" <kathleen.smith@louisville.edu>
Subject: RE: ORR ULF 13-016 (KCIR)

After reviewing these documents today I have become worried about moving the DCP provisions to ULDC. The Foundation's website states that ULDC "was created to develop and manage Foundation real estate for the benefit of the University of Louisville. It was originally established to serve as the Foundation's master development arm for the ShelbyHurst Office and Research Park in eastern Jefferson County. More recently, ULDC added the new Belknap Engineering & Applied Sciences Research Park, contiguous to the JB Speed School of Engineering, to its portfolio of properties." Given that stated purposes, if this agreement were moved to ULDC and ever discovered (and we all admit that a carefully worded open records request could get at it) would the PR from having this located in ULDC be worse than having it discovered? What if we just changed the name of Minerva to something like DCPA, LLC or formed a new entity with that name? That still would not solve the carefully worded requests problem, but it would not give the press another story about why this arrangement was located in a property development company. This may just be David worrying on a Sunday afternoon, but I just wanted to raise the issue. Thanks.

From: Sanders, Ben
Sent: Friday, March 28, 2014 4:03 PM
To: Smith,Kathleen McDaniel
Cc: Saffer, David
Subject: RE: ORR ULF 13-016 (KCIR)

Kathleen,

I have prepared a restated employment agreement for Dr. Ramsey which is designed to restate the contract as it has been amended through the December 19, 2011 board action. I have eliminated all of the deferred compensation and put that in a Participation Agreement under the DCP. Attached is the restated contract and a comparison to the original contract (as amended over time) so you can see that I have not dropped or added anything to the contract. Also attached is the proposed participation agreement under the DCP which incorporates all of the deferred compensation. Since most everything except the DCP awards included in the December 19, 2011 board action (2014, 2016, 2018 and 2020) is both vested and 'paid' to Dr. Ramsey, perhaps there is no other outstanding deferred comp, even though the amounts remain at the Foundation for investment purposes. It can be argued that allowing him to participate in the Foundation return is a separate contractual 'benefit' which we should talk about.

Thanks.

From: Smith,Kathleen McDaniel [mailto:kathleen.smith@louisville.edu]
Sent: Friday, March 28, 2014 2:27 PM
To: Sanders, Ben; Saffer, David
Subject: FW: ORR ULF 13-016 (KCIR)

It's starting. Any way we can interpret "current" to restrict the old stuff. K

From: Martin,Kenyatta N.
Sent: Friday, March 28, 2014 1:36 PM
To: Schenck, Kelley Rosenbaum (kschenck@stites.com)
Cc: Smith,Kathleen McDaniel
Subject: ORR ULF 13-016 (KCIR)

Good afternoon Kelley:

Mr. Jim McNair of Kentucky Center for Investigative Reporting (KCIR) is requesting copies of the following information:

" . . . A Copy of UL President James Ramsey's current employment contract.

A summary of Dr. Ramsey's actual compensation in 2013 or latest fiscal year, including perks not specified in the employment contract. . ."

Attached is a copy of the initial letter that was received via fax on today, March 28, 2014.

Could you work on preparing a response letter?

Thanks for your help.

Best regards,

Kenyatta

Kenyatta N. Martin, Records Custodian

University of Louisville Foundation

Grawemeyer Hall

Louisville, KY 40292

Office - (502) 852-6141

Fax – (502) 852-4238

Email - k.martin@louisville.edu

Attachment - (1)

Think Green before printing this email.

Exhibit 25

To: Willihnganz,Shirley C.[scwill01@exchange.louisville.edu]
From: Smith,Kathleen McDaniel
Sent: Wed 2/1/2012 3:28:52 PM
Subject: Re: Fwd: Rodin Proposal

Separate on contract--the EC of the Foundation did not want to take anything away so the contract extension authorized the continuation of existing benefit and approved the new additional $500K.

But, you make a good point. Ben Sanders (Stites benefits guru) is doing the analysis and the retirement contracts for the ULF. We are deliberately ambiguous because ambiguity is in the employee's favor. But, come July 1, 2012, you will need a new extension and Jim and I have talked about it. I am certain he will talk to you about it as well. He just needs the time to sit down and focus on it.

I am working on you and Don Miller. The participation agreement for you and its first amendment (what I just sent over) cover the $50K continuing through June 30, 2012. Jim needs you, as does the University, as his Provost. K

From: Willihnganz,Shirley C.
Sent: Wednesday, February 01, 2012 10:09 AM
To: Smith,Kathleen McDaniel
Subject: RE: Fwd: Rodin Proposal

I'm going to tell them no…I like it out front and I should just get what I want sometimes, shouldn't I?

Also, on the contract, I'll gladly and gratefully sign this, but I am worried that I'm now being overcompensated. The 250,000 and 500,000 are right..I don't remember anything being in the contract about additional 50,000 annual contributions from 2010, 11 and 12. All the legal language confuses me (there' a reason that in considering 20 different majors and careers I never considered law), and obviously if the foundation and president want to give me this, I'll be grateful, but I also don't want to take advantage if this was a mistake…and if I just misread everything and all is well, will be very happy to be wrong…

From: Smith,Kathleen McDaniel
Sent: Wednesday, February 01, 2012 9:59 AM
To: Willihnganz,Shirley C.; Ramsey,James Richard
Subject: Re: Fwd: Rodin Proposal

We have informed the city that it belongs to the state and the university has possession. All our lawyers agree that is our strongest position. When UofL went into the state system, all our assets became assets of the state in 1970, all the way down to pencils. The city had 41 years to object the ownership of the sculpture, and it did not.

Angela, Julie, and Stites believe the law is on our side. We can produce documents where the City placed the sculpture on the 5th step of The administration building by Mayor Farnsley. We cannot retrieve any action from Metro Council (Board of Aldermen) back at that time but the city cannot retrieve anything either. Our legal position is Mayor Farnsley gave the sculpture to UofL in the late 40s and we have had possession until 1970 and then it became a state asset without any objection from the city. This is a case where possession is 9 tenths of the law.

The city has been informed of our legal position, and we do not think they will fight if we return the sculpture to the front of the building and we take care of it as public art. We have obtained a proposal for annual waxing from Bright Foundry (very nominal cost--$2500 each waxing--at first may need 2 times per year). The restoration includes 5 years of maintenance but we are doubly prepared to keep the luster as bright as the sculpture has now. My fear is theft for scrap or grafitti, hence the camera surveillance with transmission to DPS. DPS has been under contract for the additional security while it was being restored. They have a strong interest in protecting it.

With this said, I would hate to see it not returned to our campus. Peter's proposal seems a first step to get it finally resting inside the Speed. That is not what Rodin designed it for and we have prepared it for.

I also think $100K is very low for moving it around the region. It cost us $35K to move it between KYT and Grawemeyer. Farther locations should cost much more and while it is on a moving flatbed it is extremely vulnerable. We had to use a company out of Chicago to move it because the company knows what it is doing. I do not think Peter's proposal has all the costs or threats covered. K

From: Willihnganz,Shirley C.

Sent: Wednesday, February 01, 2012 09:35 AM
To: Smith,Kathleen McDaniel; Ramsey,James Richard
Subject: RE: Fwd: Rodin Proposal

I guess I'm not sure what the university would get out of traveling it, and I like it in front of Grawemeyer. We also have better uses for 100,000....so, I would tell them no, but don't know if I have the authority to do that not knowing who the sculpture actually belongs to in terms of a university asset...

From: Smith,Kathleen McDaniel
Sent: Wednesday, February 01, 2012 9:09 AM
To: Willihnganz,Shirley C.; Ramsey,James Richard
Subject: Re: Fwd: Rodin Proposal

They talked to us about this idea and I referred them to do it through channels. I caution that the sculpture is most vulnerable as it is now, not on its pedestal. We have an obligation to return the Rodin to its place in front of Grawemeyer. That is what our funding requires. After that, it's up to others on how to fund, how to secure, if it will travel and how it will travel. The sculpture only weighs 1500 lbs, and when it is off the pedestal, it is extremely vulnerable to theft. The decision about it traveling is someone else's. We have no funding in our grant to go beyond what we were authorized.

The sculpture looks magnificent and the art faculty are excited about the result. But, it has maintenance requirements that will need to come from some place if it is to remain as beautiful as it is.

The value of the sculpture, as restored, is close to $30M. The proposal that Peter Morrin offers will be costly in not only travel but also 24 hour security.

We have been vigilant with security because we are more worried about theft for scrap metal value than reselling the art. These are crazy times we are living. We have rebuffed the ownership claim of the city and the Speed wanting it inside its Museum. Rodin crafted his sculpture to sit outside like the others do. With proper waxing, it will remain beautiful.

When it returns to its pedestal, we will have security cameras on it and a small tracking device in it. After that, the future movement of the sculpture is someone else's worry. K

From: Willihnganz,Shirley C.
Sent: Wednesday, February 01, 2012 07:01 AM
To: Ramsey,James Richard; Smith,Kathleen McDaniel
Subject: Fwd: Rodin Proposal

First I have heard of this. My first thought was to say no but this may be a more useful idea than I think...

Sent from my iPhone
Begin forwarded message:

From: "Hudson,James Blaine" <jbhuds01@exchange.louisville.edu>
Date: January 31, 2012 9:48:25 PM EST
To: "Morrin,Peter P" <p0morr05@exchange.louisville.edu>
Cc: "Willihnganz,Shirley C." <scwill01@exchange.louisville.edu>
Subject: RE: Rodin Proposal

Peter, please more forward.

I'm copying the proposal to Shirley for her information as well.

From: Morrin,Peter P
Sent: Tuesday, January 31, 2012 3:25 PM
To: Hudson,James Blaine

Subject: Rodin Proposal

Blaine,

Under separate cover I am sending you the Rodin Tour proposal that has been worked up by me with lots of help from Chris Fulton, Ying Kit Chan, John Begley and the staff of the Speed Art Museum.

We would like permission to ascertain interest (without a firm commitment yet on either side) of potential borrowing museums, and also permission to share the proposal with C. F. Callahan and others who have expressed a desire to learn more about this idea.

Peter

Exhibit 26

Procedures & Findings Report
ULF Real Estate Schedule
Exhibit 26

No.	Property Information								Acquisition Details						Findings		
No.	Property Name	Address(es)	Transaction Date	Approval Date	Property Description	Revenue Generating	Use	TIF District	Purchase Price	Gift Amount	Total Purchase Price / Gift Value	Acquisition Appraisal	A&M Assessment[1]	Paid Above Appraised Value[2]	Non-Revenue Generating[3]	Gift Amount[4]	Missing Approvals[5]
1	Amelia Place	2515 Longest Ave	Unknown	Not Available[6]	House offered to UofL President for residential use and hosting UofL sponsored events. UofL pays all maintenance fees and expenses incurrec	No	UofL	None	$ -	Not Available[7]	Not Available[7]	Not Available[8]	No Review	$ -	$ -	$ -	$ -
2	Humana Gym	601 Presidents Blvd	Unknown	Not Available[6]	Gym previously used for student intramurals. Currently used for UofL wellness incentive programs. UofL began paying a portion of rent owed under lease agreement beginning November 2016	Yes	UofL	Belknap	$ -	Not Available[7]	Not Available[7]	Not Available[8]	No Review	$ -	$ -	$ -	$ -
3	Keeney House	132 E Gray St	Unknown	Not Available[6]	House received as gift and currently used by the UofL Office of Advancement for no consideration.	No	UofL	None	$ -	$ 450,000	$ 450,000	$ 450,000	No Review	$ -	$ -	$ -	$ -
4	University Kidney Center	615 S Preston St; 400 E Chestnut St	8/5/1992	Not Available[6]	Building leased by UofL Nephrology and American Renal as part of the UofL Physicians - Kidney Disease Program.	Yes	UofL / Third Party	HSC	$ 1,550,000	$ -	$ 1,550,000	Not Available[8]	No Review	$ -	$ -	$ -	$ -
5	Carriage House	1259 Ray Ave	4/15/2007	Not Available[6]	House used for out-of-town board member visits. Maintenance costs are assumed by UofL. A&M understands this property is under contract to be sold in 2017.	No	UofL	None	$ 750,000	$ -	$ 750,000	Not Available[8]	No Review	$ -	$ 750,000	$ -	$ -
6	Cardinal Station	215 Central Avenue	11/13/2007	Not Available[6]	Commercial property acquired for UofL / ULF offices and other third-party leasing.	Yes	UofL / Third Party	Belknap	$ 7,600,000	$ -	$ 7,600,000	Not Available[8]	No Review	$ -	$ -	$ -	$ -
7	KYT-Louisville	2601 S 3rd St	5/21/2008	Not Available[6]	Land purchased for development of Belknap Engineering and Applied Sciences Research Park. Property remains undeveloped	No	None	Belknap	$ 19,500,000	$ -	$ 19,500,000	$ 13,600,000	Agreed	$ 5,900,000	$ 19,500,000	$ -	$ -
8	MedCenterIII[9]	201 E Jefferson St			Lab and office space envisioned to be used by bio-medical startup companies, constructed by LMCDC. Property was assumed by ULF upon withdrawal of LMCDC members and subsequently transferred to Nucleus in exchange for assumption of all related property debt.	Yes	Third Party	HSC		$ -				$ -	$ -	$ -	$ -
9	iHub[9]	204 S Floyd St	10/1/2008	6/5/2008	Office space developed as accelerator for bio-medical startup companies. Included as a property assumed from LMCDC and transferred to Nucleus upon the withdrawal of all other LMCDC members.	Yes	Third Party	HSC	Assumed Liabilities[10]	$ -	Assumed Liabilities[10]	$ 14,668,970	No Review	$ -	$ -	$ -	$ -
10	Haymarket[9]	301 E Jefferson			Full city block of undeveloped land transferred to ULF from LMCDC. One quadrant of the city block has been developed as TNRP Building and another developed as the 220 South Preston parking garage. Two quadrants remain undeveloped and are used as surface parking lots	Yes	Third Party	HSC		$ -				$ -	$ -	$ -	$ -
11	Phoenix Place	417, 507 S Shelby St; 808 E Madison St; 817 E Muhammad Ali Blvd; 724 S Muhammad Ali Blvd	1/31/2009	Not Available[6]	Apartment complex and land transferred to ULF in exchange for extinguishment of local debts. Property leased back to Phoenix Hill for operations. All revenue and expenses are assumed by Brown Capital. ULF expense limited to transaction costs ULF will receive property in 2059 upon lease expiration.	No	None	None	$ -	Not Available[7]	Not Available[7]	Not Available[8]	No Review	$ -	$ -	$ -	$ -
12	Lake Avenue Condo	3 Lake Ave	6/3/2009	Not Available[6]	Property gifted to ULF. Listed for sale with proceeds expected to cover maintenance and renovation expenses incurred by ULF. Remaining proceeds will benefit UofL. A&M understands this property to be under contract for sale in 2017.	No	None	None	$ -	$ 122,000	$ 122,000	$ 122,000	No Review	$ -	$ -	$ -	$ -
13	Doyle House	1470 S 4th St	12/15/2010	Not Available[6]	Originally used as housing for UofL visitors, rent free. A&M understands the property to have been sold by ULF during FY2017 with net proceeds of approximately $425 thousand.	No	UofL	None	$ -	Not Available[7]	Not Available[7]	Not Available[8]	No Review	$ -	$ -	$ -	$ -
14	Southern Kitchens	1601 S Brook St	11/22/2011	11/2/2011	Land and warehouse acquired in support of UofL long-range plan. Warehouse space was previously leased by third parties but is currently used by UofL. UofL not currently paying rent for use of space	No	UofL	Belknap	$ 750,000	$ 550,000	$ 1,300,000	Not Available[8]	Agreed	$ -	$ 750,000	$ 550,000	$ -
15	Steedly Estate	8012, 8016 Shepherdsville Rd	2011[11]	Not Available[6]	Property gifted to ULF in 2011. 8012 property sold on 1/25/13 under a mortgage agreement where the $100 thousand purchase price is to be repaid to ULF over 360 months at 3.75% interest. 8016 property under contract to be sold to Kalos Holdings, Inc. for $500 thousand, as of 12/1/15, though sale has not closed as of end of FY2016. Proceeds from property sales will cover all maintenance and renovation expenses incurred by ULF. All remaining proceeds will benefit UofL.	No	None	None	$ -	Not Available[7]	Not Available[7]	Not Available[8]	No Review	$ -	$ -	$ -	$ -
16	Chevron Plant	430 W Cardinal Blvd; 1710 S 5th St	2/29/2012	Not Available[6]	Land purchased for development of parking for UofL use. Environmental issues restrict property use. Parking receipts go to UofL Housing	No	None	Belknap	$ 1,000,000	$ -	$ 1,000,000	$ 875,000	Agreed	$ 125,000	$ 1,000,000	$ -	$ 1,000,000
17	Solae	2417, 2439, 2441 S Floyd St	12/11/2013	12/17/2013	Land purchased with intent to knock down existing Silos in support of beautification efforts under UofL long range plan. Viewed by ULF as prime development space due to proximity to Interstate 65 highway	No	None	Belknap	$ 3,300,000	$ -	$ 3,300,000	$ 2,324,535	Agreed[12]	$ 975,465	$ 3,300,000	$ -	$ -
18	Dismas House	425 W Lee St	12/20/2013	Not Available[6]	House purchased by ULF and leased to UofL Internal Audit	Yes	UofL	None	$ 560,000	$ -	$ 560,000	$ 580,000	No Review	$ -	$ -	$ -	$ 560,000
19	Dulworth Property	204, 206 E Market St	1/31/2014	12/17/2013	Building purchased in order to improve quality of the tenants surrounding the downtown Health Sciences Campus. Property has sat vacant since acquisition. Tenant improvements currently being constructed for third-party use in calendar year 2017.	No	None	HSC	$ 3,100,000	$ -	$ 3,100,000	$ 2,700,000	Agreed	$ 400,000	$ 3,100,000	$ -	$ -
20	Tafel / North Quad Properties	1820, 1900, 1940-1980 Arthur St; 333 E Brandeis St	3/26/2014	4/18/2014	Commercial property acquired for UofL / ULF offices and other third-party leasing. Space had been leased by UofL prior to purchase.	Yes	UofL / Third Party	Belknap	$ 5,500,000	$ -	$ 5,500,000	$ 3,600,000	Agreed[13]	$ 1,900,000	$ -	$ -	$ -

Procedures & Findings Report
ULF Real Estate Schedule
Exhibit 26

	Property Information								Acquisition Details						Findings		
No.	Property Name	Address(es)	Transaction Date	Approval Date	Property Description	Revenue Generating	Use	TIF District	Purchase Price	Gift Amount	Total Purchase Price / Gift Value	Acquisition Appraisal	A&M Assessment[1]	Paid Above Appraised Value[2]	Non-Revenue Generating[3]	Gift Amount[4]	Missing Approvals[5]
21	Sapulpa	Sapulpa, OK	4/23/2014	4/18/2014	Sapulpa Real Estate Holdings, LLC is formed by ULF and CF One, LLC. CF One issues a promissory note to ULF for $3.47 million to be repaid, plus accrued interest upon the sale of the factory. Entity is unwound after several years without the property having been sold	No	None	None	$ -	$ 3,470,940	$ 3,470,940	$ 3,470,940	Agreed	$ -	$ -	$ -	$ -
22	Icebreakers	252 E Market St	7/30/2014	4/18/2014	Building purchased for third-party leasing in order to improve quality of the tenants surrounding the downtown Health Sciences Campus	Yes	Third Party	HSC	$ 793,550	$ -	$ 793,550	$ 800,000	Agreed[14]	$ -	$ -	$ -	$ -
23	K&I Lumber	1601 S Floyd St;	6/18/2015	7/10/2015	Commercial property purchased at the request of UofL in support of its long-range plan to acquire property surrounding UofL Belknap campus. Use is shared by UofL Provost's Office and third-party tenants. UofL not currently paying rent for use of space.	Yes	Third Party	Belknap	$ 2,850,000	$ -	$ 2,850,000	$ 2,700,000	No Review	$ 150,000	$ -	$ -	$ -
24	Stansbury Park	Land adjacent to Stansbury Park	7/20/2015	Not Available[6]	Land purchased for development of UofL housing. Purchase agreement requires improvements of up to $5 million to bordering Stansbury Park and the Louisville and Jefferson County Metropolitan Sewer District. Grounds leased to American Campus Communities for development of student housing.	Yes	Third Party	Belknap	$ 149,010	$ -	$ 149,010	Not Available[8]	No Review	$ -	$ -	$ -	$ 149,010
25	Eastern Parkway Apartments	302, 328 Eastern Parkway	10/20/2015	10/28/2015	Purchase of dilapidated apartments originally intended to be the site of a proposed campus visitor center. Property is no longer intended to be used as visitors center but is viewed as access point to KYT-Louisville and Solae properties.	No	None	Belknap	$ 1,250,000	$ -	$ 1,250,000	$ 580,000	Agreed	$ 670,000	$ 1,250,000	$ -	$ -
26	Bed, Bath & Beyond	996 Breckenridge Ln	12/29/2015	3/7/2016	Leased property gifted to the University by JD Nichols in partial satisfaction of $10 million pledge.	Yes	Third Party	None	$ -	$ 7,000,000	$ 7,000,000	$ 7,000,000	Agreed	$ -	$ -	$ -	$ -
27	Banta	320 Eastern Pkwy	1/6/2017	10/14/2016	Purchase of commercial space originally intended to be the site of a proposed campus visitor center. Property is no longer intended to be used as visitors center but is viewed as access point to KYT-Louisville and Solae properties.	No	None	Belknap	$ 456,000	$ -	$ 456,000	$ 260,000	Agreed	$ 196,000	$ 456,000	$ -	$ -
								Totals[15]	**$ 49,108,560**	**$ 11,592,940**	**$ 60,701,500**			**$ 10,316,465**	**$ 30,106,000**	**$ 550,000**	**$ 1,709,010**

***Sources*:**

A&M encountered inconsistencies in the extent of documentation available during the review of the ULF's real property holdings. For instance, Transaction Date is at times sourced from transaction agreements and at other times sourced from closing statements. Where both transaction agreements and closing statements were available, the included dates at times did not agree. Summary information presented above reflects A&M's understanding of ULF's real property acquisitions and their use based on available documentation and may differ from documentation ULF was unable to produce.

Notes:

1) Represents the results of A&M's analyses of appraisals performed in conjunction with certain ULF real estate purchases, as described in Section 4(c), Procedure 3.
2) Represents amounts identified as paid above appraised market value for ULF properties reviewed by A&M under Section 4(c), Procedure 3. See Section 4(c), Finding 1 for further discussion.
3) Represents the purchase price of non-revenue generating ULF properties. See Section 4(c), Finding 2 for further discussion.
4) Represents the gift component of ULF real estate purchased at a discount as part of a partial gift.
5) Represents the amount paid for ULF properties purchased through transactions for which A&M was unable to identify ULF Board of Directors approval.
6) A&M was unable to identify ULF Board of Directors meeting minutes evidencing approval of the purchase of this property.
7) In the absence of an initial appraisal of this property, A&M was unable to assess the dollar value of the associated gift.
8) A&M understands an appraisal of this property was performed by Integra Realty Resources in advance of acquisition but ULF was unable to produce record of this appraisal.
9) No appraisal documentation has been identified by A&M for the properties assumed from LMCDC. The listed Acquisition Appraisal value of the LMCDC assumed properties was identified in review of a "Consideration Certificate" provided by ULF, which references "the records of the Property Valuation Administrator for Jefferson Co Kentucky" as the source of the estimated fair cash value and is signed by Dr. Ramsey.
10) The purchase agreement identified by A&M includes "Assumed Liabilities" as consideration for the transfer of these properties from LMCDC to ULF but does not define Assumed Liabilities. ULF was unable to produce an accounting of the Assumed Liabilities.
11) The Transaction Date was sourced from a draft Special Warranty Deed between PNC Bank, National Association as Executor with Power of Sale under the Will of Nathan Richard Steedly, and ULF. The month and date of the deed conveyance were not listed.
12) The Acquisition Appraisal assessed by A&M represents the appraised unimpacted land value of the property and does not reflect $3.8 million of estimated demolition and environmental remediation reported in the appraisal, effective November 14, 2013. A&M noted the estimated costs to be far in excess of costs actually incurred and has chosen to exclude them for the purpose of presenting the property's appraised value at the time of acquisition.
13) The Acquisition Appraisal assessed by A&M represents the fee simple market value reported in the appraisal of the property effective June 11, 2013. See Section 4(c), Finding 1 for further discussion.
14) ULF received an oral appraisal of the Icebreakers property effective October 15, 2013. The results of the oral appraisal were communicated directly to A&M by the appraiser, Integra Realty Resources.
15) Total Purchase Price excludes MedCenterIII, iHub and Haymarket due to ULF's inability to account for the liabilities assumed as a condition to the acquisition of those properties. Total Gift Amount excludes Amelia Place, Humana Gym, Phoenix Place, Doyle House, and Steedly Estate due to ULF's inability to provide an agreement or appraisal supporting the gift value for the property

Exhibit 27

Integra Realty Resources
Kentucky-Southern Indiana

Kaden Tower, Suite 601
6100 Dutchmans Lane
Louisville, KY 40205

T 502.452.1543
F 502.451.3657
www.irr.com

D R A F T

February 6, 2014

Jason Tomlinson
University of Louisville
Office of the Vice President for Finance
#20 Grawemeyer Hall
2301 S. Third Street
Louisville, KY 40292

Re: Arthur St, S Floyd St & E Brandeis Ave Properties
Arthur St, S Floyd St & E Brandeis Ave
Louisville, Jefferson County, Kentucky 40208
Integra Realty Resources File #: 0300-0007-13 (X)

Dear Jason:

To assist the University of Louisville in acquisition decisions Integra has been asked to incorporate recent sales activity.

Integra 's draft appraisal report dated August 19, 2013 included the 5 buildings and 6.87 acres owned by TFG Westside Realty, TFG Louisville Properties, and TFG B&S Properties, Northside on 5 PVA parcels. The property appraised contained 146,174 square feet of industrial warehouse office zoned EZ-1. The values provided were fee simple at $3,600,000 and a leased fee value at $5,500,000 which is $524,817 per acres and $800,582 per acre. The effective date was June 11, 2013.

Several properties have been in negotiations and two sales have occurred since the Integra appraisal. We will now investigate the market activity since the appraisal and its impact on the TFG properties.

The most germane sale transferred from Solae to the University for $3,300,000 on January 30, 2014 and will require approximately $1,700,000 to $2,000,000 to clear the site. This property has approximately 15 acres which results in $220,000 per acre sale price and requires approximately $120,000 per acre to clear. The property is deed restricted to prohibit housing in the future due to residual environmental impacts from the prior industrial use.

The other sale is the Cardinal Student Housing (SHC) to the Buck Company, K. Phinney Trustee, located on Crittenden Drive containing 5.07 acres through an assemblage and has R8A zoning which permits mid-rise residential construction. The property transferred June 6, 2013 from a local company to an out of town purchaser for $6,000,000 or $1,183,000 per acre. The property is assumed to be for student housing for the University of Louisville, but at the time of the property transfer no operating agreement has been obtained from the University. All other student housing projects had, at the time of transfer, operating agreements except for the Bellamy. The Bellamy received an operating agreement approximately two years after the construction.

These two sales bracket the price and the location of the TFG property. These new transactions are on the west side of the campus as is the TFG property. The sales data for these two properties is attached. In weighing the impact of these sales on the TFG property, the following table has been prepared.

Attribute/Detractors	Cardinal	Solae	TFG	TFG Value of Impact
Zoning	R8A	EZ-1	EZ-1	Negative
Direct visual access to I-65	Yes	Yes	No	Negative
Clearing Cost	20K/acre	120K/acre[1]	80K/acre[2]	Negative
Student Housing Agreement	No	Prohibited	Prohibited[3]	Negative
Accessibility to U of L	Average	Good	Good	Neutral/Positive
Size Site	Average	Very Good	Average	Neutral
Improvement Value	Slightly Negative	No Impact	High Impact	Negative
Street Access	Good	Good	Good	Neutral
Shape	Good	Good	Good	Neutral
HBU/U of L	Off Campus	Campus Use	Campus Use	Neutral
HBU/Market (As Is)	Apts.	Commercial	Current Use/Apts. Commercial	Neutral
Price (cleared)	1,200K/Acre[4]	340K/Acre	604-820K/Acre	Negative
Environmental Issue	Known	Known	Unknown	Negative

[1]Estimated by IRR
[2]Bids by demolition companies
[3]Agreement will not be permitted
[4]Assumes student housing approved

The conclusions reached from this data that directly relate to the highest and best use, location, price, and other germane factors indicate the price of $3,600,000 is appropriate and the $5,500,000 price is above market value.

If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

George M. Chapman, MAI, SRA, CRE, FRICS

Attachment

GMC:lja

Exhibit 28

Procedures & Findings Report
ULAA Properties Schedule
Exhibit 28

	Property Information						Acquisition Details					Findings		
No.	Property Name	Addresses	Transaction Date	Approval Date	Property Description	TIF District	Purchase Price	Gift Amount	Total Purchase Price / Gift Value	Initial Appraisal	A&M Assessment[1]	Paid Above Market Value[2]	Gift Amount[3]	Missing Approvals[4]
1	Trager Stadium	317, 337 Warnock Ave	7/26/1989	Not Available[5]	Land purchased for development of field hockey stadium.	Belknap	$ 3,200,000	$ -	$ 3,200,000	Not Available[6]	No Review	$ -	$ -	$ -
2	Old World Pasta	2521 S Floyd St / 339 Byrne Avenue	9/23/2009	Not Available[5]	Property developed as parking following football stadium expansion on behalf of ULAA in exchange for discounted Football and Men's Basketball season tickets under the ULAA MOU. Property has since been developed by ULAA as a soccer stadium.	Belknap	$ 2,200,000	$ -	$ 2,200,000	$ 2,000,000		$ 200,000	$ -	$ 2,200,000
3	Residential Baseball	2919 S 3rd St	10/11/2010	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 58,000	$ -	$ 58,000	Not Available[7]	No Review	$ -	$ -	$ 58,000
4	Clark / Baseball Parking 1	2815, 2819, 2821, 2823 S 2nd St / 2817 S 3rd St	10/15/2010	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 150,000	$ -	$ 150,000	Not Available[7]	No Review	$ -	$ -	$ 150,000
5	Brook St Connector	2901 S 2nd St / 2831 S 3rd St	12/31/2008	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 400,000	$ 830,000	$ 1,230,000	Not Available[6]	No Review	$ -	$ 830,000	$ -
6	Baseball Parking 2	2827 S 2nd St	6/15/2010	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 54,000	$ -	$ 54,000	Not Available[7]	No Review	$ -	$ -	$ 54,000
7	Equipment Depot	2901, 2921 S Floyd St	11/14/2011	Not Available[5]	Damaged warehouse demolished for development of Football parking lot. ULAA use of this property is a condition of the ULAA Letter.	Belknap	$ 1,595,000	$ -	$ 1,595,000	Not Available[7]	Agreed[8]	$ -	$ -	$ 1,595,000
8	Martco - Byrne Properties	331, 333, 337 Byrne Ave	12/15/2011	11/2/2011	Property purchased for development of a soccer stadium by ULAA. ULAA use of this property is a condition of the ULAA Letter.	Belknap	$ 1,050,000	$ -	$ 1,050,000	$ 800,000	Agreed[9]	$ 250,000	$ -	$ -
9	Frost Home	2901 S 3rd St	5/16/2013	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 85,000	$ -	$ 85,000	Not Available[7]	No Review	$ -	$ -	$ 85,000
10	Iowa Avenue	232 Iowa Avenue	5/30/2013	Not Available[5]	Residential property purchased for development of parking and streets in the area of the Men's Baseball field.	Belknap	$ 47,500	$ -	$ 47,500	Not Available[7]	No Review	$ -	$ -	$ 47,500
11	ULGC[10]	401 Champions Way	12/13/2013	12/17/2013	Golf Course purchased at request of ULAA for use by UofL Men's and Women's Golf teams.	None	$ 4,000,000	$ 1,850,000	$ 5,850,000	$ 4,900,000	Agreed	$ -	$ 1,850,000	$ -
						Totals	**$ 12,839,500**	**$ 2,680,000**	**$ 15,519,500**			**$ 450,000**	**$ 2,680,000**	**$ 4,189,500**

***Sources*:**

A&M encountered inconsistencies in the extent of documentation available during the review of the ULAA Properties. For instance, Transaction Date is at times sourced from transaction agreements and at other times sourced from closing statements. Where both transaction agreements and closing statements were available, the included dates at times did not agree. Summary information presented above reflects A&M's understanding of the ULAA Properties transactions and their use based on available documentation and may differ from documentation ULF was unable to produce.

Notes:

1) Represents the results of A&M's analyses of appraisals performed in conjunction with the purchase of certain ULAA Properties, as described in Section 4(d), Procedure 3.
2) Represents amounts identified as paid above appraised market value for ULAA Properties reviewed by A&M under Section 4(d), Procedure 3
3) Represents the gift component of ULAA Properties purchased at a discount as part of a partial gi
4) Represents the amount paid for ULAA Properties purchased through transactions for which A&M was unable to identify ULF Board of Directors approval.
5) A&M was unable to identify ULF Board of Directors meeting minutes evidencing approval of the purchase of this property.
6) ULF was unable to produce record of an appraisal of this property performed in advance of acquisitio
7) A&M understands an appraisal of this property was performed by Integra Realty Resources in advance of acquisition but ULF was unable to produce record of this apprais
8) ULF received an oral appraisal of Equipment Depot, effective August 3, 2011. The results of the oral appraisal were communicated directly to A&M by the appraiser, Integra Realty Resour
9) ULF received an oral appraisal of Martco - Byrne Properties, effective February 17, 2011. The results of the oral appraisal were communicated directly to A&M by the appraiser, Integra Realty Resour
10) The $4 million ULGC purchase price represents the amount loaned from ULF to CCG under the CCG Note. A&M noted the ULGC closing statement includes a purchase price of $3,774,422, net of purchase price adjustments. The entire $4 million loaned on the CCG Note remains outstanding. See Section 4.d., Finding 5 for further discussion of this transaction.

Exhibit 29

CARDINAL ATHLETICS

University of Louisville
Louisville, Kentucky 40292
Phone: (502) 852-5732
FAX: (502) 852-0816

UNIVERSITY of LOUISVILLE

Memo To: Kathleen Smith

From: Kevin Miller

Date: January 29, 2010

Re: Memorandum of Understanding

This document (including the eight supporting pages) will serve as a "Memorandum of Understanding" between the University of Louisville Foundation (Foundation) and the University of Louisville Athletic Department (Athletic Department).

The Athletic Department has three special projects outside the annual operating budget which require special financing. The projects include the following:

Description of Expense	Estimated Cost
(1) The acquisition of the Pasta Property on Floyd Street and the construction of a parking lot and exercise hill	\$3.2M
(2) Reorganization of football staff	\$4M
(3) Construction of parking lot on Southern Graphics Property at corner of Floyd and Central	\$750K
(3) Demolition of warehouse and construction of parking lot for baseball on 2nd street outside left field area.	\$500K
Total	\$8.450M

The Foundation has suites and season tickets for both football and men's basketball events. The Foundation would like to have their allocation of tickets improved in the new Papa John's Cardinal Stadium Expansion as well as the new downtown Arena. Working close with you, we have developed a seating allocation plan that meets your needs. The attached documents outline the tickets, ticket locations and donations (one time and annual) relating to your request.

The Foundation agrees to provide the special financing outlined above in return for the following summary of benefits to be provided by Athletics over the next ten years. Please note:

Funding to Foundation from Athletics

	Amount
Football:	
Annual discounts for ten years on seats and donations	$675K
Waiver of one time "opportunity cost"	$100K
Men's Basketball:	
Annual discount for ten years on seats and donations	$2.916M
Waiver of one time "opportunity cost"	$5.935M
Grand Total of Funding	$9.626M

If you and Dr. Ramsey agree to terms outlined in this memorandum, please have Dr. Ramsey approve below.

Tom wanted me to thank both you and Dr. Ramsey for assisting with these special projects so that we do not have any impact on our annual operating budget.

Approved by: Dr. Jim Ramsey — 1-29-10
Date

Approved by: Tom Jurich — 1-29-10
Date

Athletics-UL Foundation Agreement Summary
for FB and MBB--Updated 1/15/10

	CAF Seats	Suite		Total
Current Annual Commitment:				
Football	104,300	50,000		154,300
Men's BB	205,700	150,000		355,700
Total	310,000	200,000		510,000
Proposed Annual Commitment:				
Football				
Seats	104,300			104,300
Suites (2)		100,000		100,000
Loge Seats	54,000			54,000
Sub-Total FB	158,300	100,000		258,300
Less Discount	(27,000)			(27,000)
Total FB	131,300	100,000	-	231,300
Men's Basketball				
Seats	486,000			486,000
Two Side Suites		180,000		180,000
Party Suite		180,000		180,000
Sub-Total MBB	486,000	360,000	-	846,000
Less Discount	(201,600)	(90,000)		(291,600)
Total MBB	284,400	270,000		554,400
SUMMARY:				
Total FB	131,300	100,000		231,300
Total MBB	284,400	270,000		554,400
TOTAL	415,700	370,000		785,700

Athletics-UL Foundation Agreement Summary
for FB and MBB--Updated 1/15/10

Payment Schedule:						
Due Foundation from Athletics:						
	Pasta Property		3,200,000			
	Football		4,000,000			
	Southern Graphics		750,000			
	Baseball Parking		500,000			
	total		8,450,000			
Founding to Foundation from Athletics:						
Football						
	Discounts for 10 years			675,000		
	Opportunity Discount			100,000		
	Total Football					775,000
Basketball						
	Discount for 10 years			2,916,000		
	Opportunity Discount			5,935,000		
	Total Basketball					8,851,000
	Grand Total					9,626,000

Athletics Commitment to UL Foundation
For Football--Updated 1/15/10

Football:		Discount	Opportunity Discount	One-Time Payment	Annual Commitment from Foundation beginning 2010
Current Commitment for UL Football from Foundation:					
363 Tickets. This includes 86 seats located in Section 317. Foundation wants to eliminate 50 in Section 317 and purchase 50 in new loge area on East side.					
One Suite on West Side					
Current CAF Commitment for seats	104,300				104,300
Current CAF Commitment for Suite	31,000				50,000
total	135,300				154,300
Proposed Commitment and discount proposed by athletics:					
50 seats in loge (outside black seats at red prices):					
4 loge seats for Dr. Ramsey at mid field					
Current acquisition fee for license					
54 @ $12.5K	675,000				
Proposed Discount					
54 @ $7.5K		(405,000)			
One time payment by UL Foundation	270,000			270,000	
Annual Payment:					
Current Fee					
54 @ $1K	54,000				
Proposed annual fee for 10 years					
54 @ $500	27,000				27,000
Proposed Discount for ten years					
54 @ $500 @ 10 years		(270,000)			
New Suite on East side:					
Current Stadium Gift required	100,000				
Prposed Discount			(100,000)		
Annual Fee to be charged in 2010	50,000				50,000
TOTALS for FB		(675,000)	(100,000)	270,000	231,300

NOTE ON 50 LOGE SEATS AND NEW SUITE:

26 are to be located in Section 8

24 are to be located in Section 4

New Suite is to be # 21

4 seats to be designated for Dr Ramsey to be paid by Foundation. Loge seats to be located at mid-field.

Athletics Commitment to UL Foundation
For Men's Basketball--Updated 1/15/10

							Discount	One-Time Payment	Opportunity Discount	Annual Commitment from UL FDN beginning 2010
Basketball:										
	Current commitment for UL MBB from UL Foundation:								]	
316		316 tickets with CAF Donation				205,700				
12	10 sro's	Suite				75,000				
328		Total				280,700				
12	10 sro's	New Suite in 2009				75,000				
340						355,700				
	Proposed commitment and discount proposed by athletics:									
		Party Suite								
24	10 sro's		Value 2010			180,000				
			Proposed Discount for 15 yrs			(90,000)	(90,000)		(200,000)	
			Annual Commitment for 15 yrs			90,000				90,000
		President's "Z" Side-Court Suites								
			Value 2010 ($85K to $100K)			180,000				
16	8 sro's		Suite # 11							
16	8 sro's		Suite # 48							90,000
			No discount							90,000
		Proposed Seat Locations:								
		Number of Seats			Annual Value					
24		24		Side ct Club	2,500	60,000	(21,600)			38,400
				(12 on each side)					(1,200,000)	
				Sections:						
				8 in 115; 8 in 107; 8 in 105						
			DISC	24	(800)	(21,600)				
8		8		Side Court Club	2,500	20,000				
				Designated for Hayes/						
				Prather					(400,000)	
				Section:						
				8 in 115						

Athletics Commitment to UL Foundation
For Men's Basketball--Updated 1/15/10

							Discount	One-Time Payment	Opportunity Discount	Annual Commitment from UL FDN beginning 2010
2		2		Side Court Club	2,500	5,000			(100,000)	
				Designated for						
				Ronnie and Marie Abrams						
				2 in section 107						
4		4		Side Court Club	2,500	10,000			(200,000)	
				Designated for						
				Bracie and Ch Moore						
				4 in section 107						
4		4		Mid Court Club	2,500	10,000	(3,600)			6,400
				Designated for Dr Ramsey					(200,000)	
				4 in section 116						
			Disc	4	(900)	(3,600)				
4		4		Side Court "VIP"	15,000	60,000	(30,000)			30,000
				Located on baseline						
				near vis bench					(200,000)	
			Disc	4	(7,500)	(30,000)				
24		24		lower side ct	2,500	60,000	(21,600)			38,400
				Sections:					(1,200,000)	
				8 in 115; 8 in 107; 8 in 105						
			DISC	24	(900)	(21,600)				

Athletics Commitment to UL Foundation
For Men's Basketball--Updated 1/15/10

						Discount	One-Time Payment	Opportunity Discount	Annual Commitment from UL FDN beginning 2010
20	20		5 (4 Top JR Suite)	2,500	50,000	(18,000)			
			Sections:						32,000
			1 in 219; 1 in 220; 1 in 201; 1 in 202; 1 in 203					(125,000)	
		DISC	20	(900)	(18,000)				
12	12		2 (6 Top JR Suite)	2,500	30,000	(10,800)			
			Sections:						19,200
			1 in 202; 1 in 218					(80,000)	
		DISC	12	(900)	(10,800)				
48	48		End Zone Club	1,500	72,000	(24,000)			
			Sections:						48,000
			12 in 209; 12 in 210; 12 in 211; 12 in 212					(240,000)	
		DISC	48	(500)	(24,000)				
			For VP's (6) and Deans (12)						
72	72		End Zone Club	1,500	108,000				
			Sections:						
			18 in 209; 18 in 210; 18 in 211; 18 in 212					(360,000)	
40	40		Mezzanine Loge	1,000	40,000	(20,000)			
			20 on each side						20,000
			Sections:						
			6 in 309; 4 in 307; 4 in 324; 6 in 322						
		DISC	40	(500)	(20,000)				
			LEGISLATURE TICKETS						
52	52		Assorted locations	500	26,000	(13,000)			
			Sections:						13,000
								(130,000)	
			14 in 326; 12 in 327; 14 in 320; 12 in 319						
		DISC	52	(250)	(13,000)				
			(Louisville Delegation)						
52	52		Assorted locations	1,500	78,000	(39,000)			39,000
			14 in 118; 12 in 104; 14 in 108; 12 in 114					(1,300,000)	
		Disc	52	(750)	(39,000)				
370									
						(291,600)			

Athletics Commitment to UL Foundation
For Men's Basketball--Updated 1/15/10

		Discount	One-Time Payment	Opportunity Discount	Annual Commitment from UL FDN beginning 2010
Annual discount for 10 years					
10 @ $291,600		2,916,000			
Waived one time donations to purchase					
muitple seats in priority seat locations					
in new arena				(5,935,000)	
Key to purchasing Club, Junior Suites, Suite,					
(NOT PARTY SUITE), and End Zone Club					
is that you have rights to all events in Arena					
TOTALS FOR BASKETBALL					554,400
Recap					
Currently purchased	355,700				
4 Side Court Seats	30,000				
Party Suite	90,000				
Junior Suites	51,200				
24 Additional seats (avg)	36,000				
Total	562,900				

Exhibit 30

April 19, 2012

Kevin,

Here is what we agree to:

1. We will support, even present if you want, a liquidation of $2M from your endowment when you make the report to the ULAA Board in June.
2. Martco is a property the UofL Foundation purchased for the explicit use of the Soccer Stadium. The parking lot, also used for the Soccer Stadium, is also authorized for the use of Athletics. Both properties will remain on the balance sheet of the ULF for the "use of Athletics."
3. Equipment Depot has been purchased by the ULF. We will pay the vendor a bonus to vacate next month and will raze buildings, clear the land, pave and light the property for the "use of Athletics." The property will remain on the ULF balance sheet.
4. We have agreed to secure the Cardinal Club as long as we have in effect a management agreement that relieves the ULF from managing the CC. We will finalize the transaction as soon as we have that management agreement, through Athletics, to the ULF.
5. We will work on creating a pedestrian mall on Floyd Street, between Cardinal and the north side of the entrance to the Swain Center. This will require right turns only out of the parking garage and the circular drive to the Swain Center. No left turns will be possible. When I have the preliminary designs ready, I will work with Tom to finalize. In the meantime, I will work with Shirley to secure right turns only out of the parking garage now.
6. Because of the state's refusal of any agency bond authorization for the next two years, we will work with the President of SGA, the Provost, et al. to secure the gym space in the Swain Center for the "sole use of Athletics." This will require some diplomatic maneuvering on my part, but I am certain this can be done with the new cast of characters in SGA.
7. In regard to the transfer of the $350K, and the situation you have with your budget, we will ask Mike to forego payment for FY13. This one is beyond my personal decision, but I feel certain Dr. Ramsey will accept. I just need a little time to make it happen before July 1, 2012
8. In regard to recognition, for various internal political reasons, we need to announce that Athletics has come through for us in one of our darkest hours. This year's budget was out of balance by nearly $5M. The President absolutely wanted the faculty and staff to have a salary increase. Our employees are our best asset and the only way we will achieve lasting quality. Dr. Ramsey wanted the faculty and staff to know that. Athletics helped make this possible. We also had to sell some real estate because the State cut our budget by nearly $10M. We will be very general in comments, but we must say the fund source was Athletics stepped up to help us make this possible.

This note is between you, Tom, Dr. Ramsey, and me. I do not want it on the e-mail where we have very little control. Please destroy your earlier note to me. I have done same here. The President deeply values Tom's loyalty and commitment to the total university and all that you do to work with me to accomplish our objectives. You both are the reason the President agreed to extend his contract.

Thanks. Kathleen

Exhibit 31

Procedures & Findings Report

Ticket Donations Analysis

Exhibit 31

Sport	Quantity	Location	Type	Years	Required Annual Donations: Annual Donation Per Ticket	Required Annual Donations: Annual Donation	Required Annual Donations: Extended Annual Donations	Annual Donations Satisfied Under ULAA MOU: Annual Donation Per Ticket	Annual Donations Satisfied Under ULAA MOU: Annual Donation	Annual Donations Satisfied Under ULAA MOU: Extended Annual Donations	Total Remaining Annual Donation	Up-Front Donation: Up-front Donation Per Ticket	Up-Front Donation: Total Up-front Donations	Total Donations Satisfied Under ULAA MOU
Football Tickets														
Football[1]	54	Loge	Seats	10	$ 1,000	$ 54,000	$ 540,000	$ 500	$ (27,000)	$ (270,000)	$ 270,000	$ (7,500)	$ (405,000) [2]	$ (675,000)
Football	24	Suite	Suite	1	-	-	-	-	-	-	-	(4,167)	(100,000)	(100,000)
	78					54,000	540,000		(27,000)	(270,000)	270,000		(505,000)	(775,000)
Basketball - Discounted														
Basketball	48	Party Suite	Suite	10	3,750	180,000	1,800,000	1,875	(90,000)	(900,000)	900,000	(4,167)	(200,000)	(1,100,000)
Basketball	24	8 in 115, 107, 105	Seats	10	2,500	60,000	600,000	900	(21,600)	(216,000)	384,000	(50,000)	(1,200,000)	(1,416,000)
Basketball[3]	4	4 in section 116	Seats	10	2,500	10,000	100,000	900	(3,600)	(36,000)	64,000	(50,000)	(200,000)	(236,000)
Basketball	4	Side Court VIP	Seats	10	15,000	60,000	600,000	7,500	(30,000)	(300,000)	300,000	(50,000)	(200,000)	(500,000)
Basketball	24	8 in 115, 107, 105	Seats	10	2,500	60,000	600,000	900	(21,600)	(216,000)	384,000	(50,000)	(1,200,000)	(1,416,000)
Basketball	20	JR Suite (4 in 219, 220, 201, 202, 203)	Seats	10	2,500	50,000	500,000	900	(18,000)	(180,000)	320,000	(6,250)	(125,000)	(305,000)
Basketball	12	2 JR Suite (6 in 202, 218)	Seats	10	2,500	30,000	300,000	900	(10,800)	(108,000)	192,000	(6,667)	(80,000)	(188,000)
Basketball	48	End Zone Club (12 in 209, 210, 211, 212)	Seats	10	1,500	72,000	720,000	500	(24,000)	(240,000)	480,000	(5,000)	(240,000)	(480,000)
Basketball	40	6 in 309, 4 in 307, 4 in 324, 6 in 322 each side	Seats	10	1,000	40,000	400,000	500	(20,000)	(200,000)	200,000	-	-	(200,000)
Basketball[4]	52	14 in 326, 12 in 327, 14 in 320, 12 in 319	Seats	10	500	26,000	260,000	250	(13,000)	(130,000)	130,000	(2,500)	(130,000)	(260,000)
Basketball[5]	52	14 in 116, 12 in 104, 14 in 108, 12 in 114	Seats	10	1,500	78,000	780,000	750	(39,000)	(390,000)	390,000	(25,000)	(1,300,000)	(1,690,000)
	328					666,000	6,660,000		(291,600)	(2,916,000)	3,744,000		(4,875,000)	(7,791,000)
Basketball - Non-Discounted														
Basketball[6]	72	18 in 209, 210, 211, 212	Seats	10	1,500	108,000	1,080,000	-	-	-	1,080,000	(5,000)	(360,000)	(360,000)
Basketball[3]	96	Side-Court Suites	Suite	10	3,750	360,000	3,600,000	-	-	-	3,600,000	-	-	-
	168					468,000	4,680,000		-	-	4,680,000		(360,000)	(360,000)
Tickets paid for by individuals[7]														
Basketball[8]	8	8 in 115	Seats	10	2,500	20,000	200,000	-	-	-	200,000	(50,000)	(400,000)	(400,000)
Basketball[9]	2	2 in section 107	Seats	10	2,500	5,000	50,000	-	-	-	50,000	(50,000)	(100,000)	(100,000)
Basketball[10]	4	4 in section 107	Seats	10	2,500	10,000	100,000	-	-	-	100,000	(50,000)	(200,000)	(200,000)
Total Individual	14					35,000	350,000		-	-	350,000		(700,000)	(700,000)
Total Basketball	510					1,169,000	11,690,000		(291,600)	(2,916,000)	8,774,000		(5,935,000)	(8,851,000)
Total Per ULAA MOU	**588**					**$ 1,223,000**	**$ 12,230,000**		**$ (318,600)**	**$ (3,186,000)**	**$ 9,044,000**		**$ (6,440,000)**	**$ (9,626,000)**

Notes:

1) The ULAA MOU designates four of these tickets for Dr. Ramsey's use.
2) Amount included as a component of the Annual Donations satisfied under the ULAA MOU. A&M noted this waived donation to represent a license acquisition fee in the backup to the ULAA MOU, which appears to more accurately represent a one-time, up-front cost to ULF, rather than a recurring annual cost. As such, A&M has reclassified this amount as a waived Up-front Donation, rather than a waived Annual Donation.
3) The ULAA MOU designated these tickets for Dr. Ramsey's use.
4) The ULAA MOU labeled these tickets as "Legislature Tickets".
5) The ULAA MOU labeled these tickets as "Louisville Delegation".
6) The ULAA MOU designated 6 of these tickets as for the use of VPs and the other 12 for the use of Deans.
7) ULF satisfied the Up-front Donation on these tickets under the terms of the ULAA MOU. It is A&M's understanding individuals receiving these tickets paid all Annual Donations and Face Value for these tickets.
8) The ULAA MOU labeled these tickets as " Designated for Hayes / Prather".
9) The ULAA MOU labeled these tickets as "Designated for Ronnie and Marie Abrams".
10) The ULAA MOU labeled these tickets as "Designated for Bracie and Ch Moore".

Exhibit 32

Procedures & Findings Report
ULAA Compensation Analysis
Exhibit 32

ULAA Employees with ULF Funded Compensation							
Employee	**Year**	**ULF Salary[1,2,3]**	**ULF XPAY[1,2,4]**	**UofL Salary[1,2,5]**	**UofL XPAY[1,2,6]**	**Other UofL Compensation[7]**	**Total Compensation**
Jurich, Tom	2010	$ 255,305	$ -	$ 484,993	$ 606,254	$ 191,703	$ 1,538,254
	2011	255,916	-	502,898	1,340,925	277,800	2,377,539
	2012	255,917	-	484,993	522,472	170,118	1,433,500
	2013	255,917	-	494,693	1,192,597	541,238	2,484,445
	2014	255,917	-	759,438	2,168,741	275,704	3,459,800
	2015	259,756	-	1,029,698	1,135,297	311,143	2,735,893
	2016	263,595	-	1,044,915	1,929,665	2,112,104	5,350,278
		$ 1,802,323	**$ -**	**$ 4,801,628**	**$ 8,895,950**	**$ 3,879,809**	**$ 19,379,710**
Crum, Denny	2010	$ 339,200		$ -	$ 414,164	$ 1,978	$ 755,342
	2011	449,046		-	329,879	1,978	780,903
	2012	228,154		-	583,915	1,978	814,047
	2013	338,000		-	489,342	1,978	829,320
	2014	338,000		-	502,801	1,978	842,778
	2015	338,000		-	524,745	1,978	864,723
	2016	238,833		-	543,809	1,978	784,620
		$ 2,269,234		**$ -**	**$ 3,388,655**	**$ 13,843**	**$ 5,671,732**
Kragthorpe, Steven	2010	$ -	$ 1,100,000	$ -	$ -	$ -	$ 1,100,000
	2011	-	1,100,000	-	-	-	1,100,000
	2012	-	1,800,000	-	-	-	1,800,000
		$ -	**$ 4,000,000**	**$ -**	**$ -**	**$ -**	**$ 4,000,000**
Jurich, Mark	2010	$ 30,002	$ -	$ 28,249	$ 4,500	$ 1,858	$ 64,608
	2011	40,381	-	52,119	6,000	2,375	100,875
	2012	86,675	6,000	28,275	3,000	2,542	126,492
	2013	136,500	12,000	-	-	2,644	151,144
	2014	151,930	6,000	-	-	2,544	160,474
	2015	160,860	-	-	-	4,763	165,623
	2016	160,860	-	-	-	4,737	165,597
		$ 767,208	**$ 24,000**	**$ 108,642**	**$ 13,500**	**$ 21,462**	**$ 934,812**

***Notes*:**

1) Represents gross compensation recorded in payroll general 511xxx series accounts.
2) Payroll recorded to fund codes 1020, 1023, 1026, 13xx series, 14xx series, 1600 and 1615 is presented as ULF compensation. Payroll recorded to all other fund codes is presented as UofL compensation.
3) Represents the employee's total gross ULF compensation recorded to payroll general ledger accounts with an additional pay earn code other than XPY or XBN.
4) Represents the employee's total gross ULF compensation recorded to payroll general ledger accounts with an additional pay earn code of XPY or XBN.
5) Represents the employee's total gross UofL compensation recorded to payroll general ledger accounts with an additional pay earn code other than XPY or XBN.
6) Represents the employee's total gross UofL compensation recorded to payroll general ledger accounts with an additional pay earn code of XPY or XBN.
7) Represents amounts recorded to UofL Form W-2 Box 12, reason code C, and Box 14, identified by A&M as compensation beyond that which was captured as gross payroll recorded to the general ledger.

Exhibit 33

Joe Gahlinger - Re: Fwd: Cardinal Club Loan

From: Jason Tomlinson
To: Joe Gahlinger
Date: 8/25/11 6:19 PM
Subject: Re: Fwd: Cardinal Club Loan
CC: Larry W Zink; Michael D Kramer

Thanks

>>> Joe Gahlinger 8/25/2011 3:17 PM >>>
7.1%

Thanks,

Joe Gahlinger
Dir, Investment & Financial Mgmt
University of Louisville Foundation
v: (502) 852-8254
f: (502) 852-8228
jgahlinger@louisville.edu
>>> Jason Tomlinson 8/25/11 11:57 >>>
I understand and thanks. Can you tell me what the average annual compounded rates of return is for the fixed income?

Thanks...Jason

>>> Joe Gahlinger 8/25/2011 10:30 AM >>>
Jason,

See Mike Kramer's note below.

Although the $4 million being contemplated for the loan would be considered a Fixed Income Class investment, it doesn't fit the risk profile (i.e., low risk of Treasuries) or the liquidity profile (daily) of our Fixed Income investments.

The Cardinal Club loan's risk profile would probably more appropriately match the overall endowment's profile or more specifically the KSL Capital Partners profile. In both cases, our return (10.5 - 10.6%) reflect the risk premium we would expect from an investment in this class.

All that being said, it might be simplest to determine our opportunity cost using the overall endowment return (10.6%) since that would be more easily understood by all concerned. Namely, we're taking $4 million from the endowment pool where we can reasonably expect to earn 10.6% and investing it where we are guaranteed a 5% return and the $4 million would be illiquid.

Note: all the endowment rates mentioned are average annual compounded rates of return.

As we discussed on the phone, this is an analysis based purely on a financial investment point of view. It does not consider any of the "programmatic or intangible" benefits the University might realize from the loan.

Hope this helps. If not give me a call and we'll try again.

Thanks,

Joe Gahlinger
Dir, Investment & Financial Mgmt
University of Louisville Foundation
v: (502) 852-8254
f: (502) 852-8228
jgahlinger@louisville.edu
>>> Michael D Kramer 8/25/11 10:00 >>>
Joe,

Based on our discussion and the opportunity cost of using the endowments investment pool to fund a loan to the Cardinal Club, we should expect a return that falls into one of the following categories:

Our investment in the Vanguard Long-term Treasury Fund has returned 6.80% over the past 10 years.

The total endowment pool has returned 10.60% since 01/01/1990.

One of the current investment managers in the endowment pool, KSL Capital Partners, invests in resort properties. They have returned 10.50% since 2005 in the KSL Fund II that has several resorts that are golf related.

Based on the risk of the asset, the loan should fall into one of the latter two categories. We should expect a return of 10 - 11% on the investment.

Thanks,

Mike

Mike Kramer
Accountant III
University of Louisville Foundation
Controller's Office
(502) 852-8252
mdkram01@louisville.edu

Exhibit 34

Accomplishment Evaluation for Kathleen Smith
2010-2011

Major accomplishments: Orchestrated the Trustees to Ft. Knox in July. This trip had significant logistical issues because the Post facilities offered very little support. The Trustees and senior administrative leadership 1) learned more about the Post, 2) visited the Maude Center, which will house the Accession and Personnel Command (an influx of more than 3,500 well paid Army and GS workers to the Ft. Knox area who will undoubtedly be interested in higher education for them and their families), and 3) bought into the possibilities of a coalition between the Army-Ft. Knox and the University of Louisville in education, academic research, and public service. Subsequently, the Coalition became chaired by Blake Haselton, Richard Goldstein, and Craig McClain and staffed by Jennifer White from our office. We arranged for this team, along with M. Handmaker, to visit Ft. Riley to see how that post interfaced with Kanansas State and Manhattan. I added Jerry Johnson to the mix so the team (without Margaret) would visit with Col. Neadham (Gov. Beshear's Liaison with the Army) in Frankfort. Neadham raved about Renee Finnegan, so I recruited her to serve as UofL's chief liaison to the Coalition (soon to be headed by an Executive Board). Renee starts on May 9, .8FTE, @ $100,000. She was brigade commander of the Army's ROTC with 5,000 units reporting to her. She has worked for the head of the Veterans Administration and knows his personal cell number. She is personal friends with Gen. Freakley and his successor, Gen. McDonald. Her influence in the Army is significant. She will be an excellent asset for the success of the Coalition. Her office will be in the Admin. Annex with Jennifer White, and on May 9, she will be ready to make things happen. Oversaw the final construction issues on the Student Health Center in Cardinal Station to make sure open in August. Cardinal Station fully leased and revenues exceeding operating costs. Working on creating reserve to repay loans. Also, in July negotiated new seating (including funding of) in expanded football stadium and new arena. All President's seats now are very good. We moved from $350K to $750K as annual fee but we have 3 prominent arena suites, 2 football suites, arena floor seats, side arena seating, club seating at both ends of arena, club stadium seating at 45 yard line, and premium hospitality room in arena. We did well with no negative publicity.

In August asked OBF to chair the naming the College of Business for Harry S. Frazier and lead with a $5M gift. Secured Charlie Moyer's support for naming. Then, secured Sandra Frazier's agreement with a matching lead $5M gift. At the same time, OBF met with Jean to ask for her help, which he had but temporarily lost because of T.Raidy. Set up JRR to meet with OBF for final approval of his $5M. Set up JRR to meet with Jean and Sandra for final approval of their $5M. Both gifts are discretionary for Dean. Led team that created $10M proposal to Brown Forman Corporation for global sales leadership. We are submitting similar proposal to YUM! on global sales leadership and another on energy conservation/sustainability. YUM hires MBA and MEng graduates from Northwestern. We want to company to use UofL. In August, I met with Bernard Trager on 'Truth & Justice' plaza. He agreed to fund entirely and to build plaza in time for PBK visit. Value of plaza gift is $350-400K. Held groundbreaking in November and plan to hold dedication in May 2011. Am working with Blake Haselton on solicitation to Jean and Bernard for naming CEHD. Plan to get $5M from Tragers and ask Tragers to help us secure rest. We also started construction on the 3rd & East. Pkwy. Project ($2.5M) and Freedom Park ($2.0M) to have them finished by PBK. Disappointingly, Freedom Park was only half finished. Now recruiting funding ($250K) for improvement of The Playhouse. 3rd & EP came in under budget by $1M so I asked Joe Prather for help in October. Joe secured informal approval (we sent formal request) to Sec. Hancock to use the $1M for finishing the driveway of Oval with black pavers, interior landscape lights on Oval, irrigation and new sod for Oval, restoration of The Thinker, restoration of the steps from the Oval to the driveway, including the flower boxes, and exterior lighting of the dome for Grawemeyer. Work on this begins in June, 2011. Secured $20,500 match from Councilwoman Marianne Butler to clean up 4th St. RR bridge before August return of students. Just received authorization to expend $2.2M on North Entrance. Will talk to Manual principal (Blake is setting up) next week to get his support for changes to Manual entrance. Roadway work will begin in June and finish by August.

In late August/early September, I researched Harriett and Woody Porter, met with a committee, secured Committee support for naming the CEHD building for Woody and Harriett, met with Dean Haselton to help him secure faculty support for naming, laid out a plan for Julie to execute in conjunction with SOU, secured the date on the family's calendar, and we made it happen. I worked with VYB on Construction Manager and Architect selection for the 1st bldg. on Haymarket. Met with Messer Construction about a $500,000 gift to Engineering and referred them to Mickey (looks like Mickey will get $350K). Led entrepreneurial group to obtain Foundation support for Haymarket. Used entrepreneurial group with NTS to keep 1st building on track at ShelbyHurst for leased occupancy by 2011. Steel is going up and opening targeted for late December. Meeting with TARC to help ratchet LEED status to Silver. Signed contract to have NTS manage grounds (including academic core), and plan to ask Brian to paint/clean up exterior of Burhans to make more attractive. An in-kind gift of $250,000—out of NTS operations. They want the building to look better for leasing of new 600 Building. Led entrepreneurial group to review Fdn. funding projects, e.g., PGxL, Intrepid, Vivorte, Nauganeedles (pending due diligence), Edumedics, Cardinal Club, housing/real estate on 2nd Str. contiguous to KYT, proposal for Univ. Park Apartments (purchasing agreement finished), Stoddard Johnston, KYT departure and ULDC move in (Ellen and Jake moved on site to protect the asset—ULDC going forward with salvage (60/40 split) prior to demolition, fixing pump flooding issues at 2nd entrance, and $2.5M insurance claim on "turret" building across from Reynolds Lofts—hope to restore bldg and use as Fdn. Offices), Chevron (agreement on $800K purchase, but asking $50,000/year for Chevron Engineering Fellowship for doctoral student to monitor instrumentation for hazardous issues—NO UofL liability). I'm hoping to close this month on Chevron and Univ. Park Apts (for $2.3M cash).

Minor accomplishments; Jerry Johnson came in January. 1) Arranged his pay (on time), his office, computer, cell phone in Grawemeyer and his primary location in Abell Administration with same resources. (FYI: he made the contribution to Hal.) 2) Using Jerry to help with KYTC pending ($10M) grant applications and ($13M) funding at national level. 3) Asked Kim Maffett to work on HR/Benefits for LLCs, serve as interface with PEO, and now to work on financial (especially travel and entertainment) guidelines for LLCs. She had a some difficulty finding her way with the reengineering savings targets for the EVPHA. We have targets and the new EVPHA can help achieve those as appropriate. Kim depended heavily on CPA firm. 4) Helped Nathan Hughes focus on degree and helped him with job and tuition. Created an indebtedness to help us with fundraising. 5) Introduced Henry Heuser to Ying Kit (new chair of Fine Arts) and they hit off greatly. Henry could become Fine Arts major benefactor. Henry wants to appraise the Hite Art Collection to see if anything could be sold to help program achieve greater success. 6) Worked with Fine Arts to make Ed Hamilton become Morgan Chair. Ed is working on Freedom Park Modelettes in bronze that we can use to fundraise for the cost of the sculpture at Freedom Park. 7) Hired Ed to do Bas Relief for Harry Frazier naming of College. Asked Ed to consider gifting sculpture for University Boulevard. Would be in circle (next to Lutz Hall) at Brook and Warnock (hope to rename University Blvd.) 8) Worked with VYB on Belknap TIF. Majority of capital threshold projects are coming from KYTC projects and Speed Museum proposed enhancement. 9) Secured sculpture for little league in Frankfort so the park can dedicate in spring. 10) Brainstormed with Jerry Johnson and Vickie about Health Information Exchange. Not sure we can get this going. Seems to be circular and possibly too late. Will keep trying to nudge along. UofL should be leader, not non-player. 11) Put street and directional signage up around campus (Rowland Design out of business in August 2010); doing banner and signage work and doing cheaper (without any quality issues).

All of these have much more to be said about them—just couldn't distill to one page unless double-sided. So, please consider double-sided. There was so much that went on this year. It was another good year. This does not capture my regular work with the President, the office, the boards, the board members, athletics, et al. Kathleen