

**UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.**

**A Component Unit of the University of Louisville**

**Accountants' Report and Financial Statements  
June 30, 2007 and 2006**

**UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.**

**A Component Unit of the University of Louisville**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
University of Louisville Athletic Association, Inc.  
Louisville, Kentucky

We have audited the accompanying basic financial statements of the University of Louisville Athletic Association, Inc. (Association), as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

September 21, 2007

# UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

## A Component Unit of the University of Louisville

### Management's Discussion and Analysis (Unaudited)

#### Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Athletic Association, Inc. (Association) for the years ended June 30, 2007, 2006, and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

The Association is a Kentucky not-for-profit corporation organized in 1984 for the purpose of promoting the intercollegiate athletic activities of the University of Louisville (University), a state-supported research university located in Kentucky's largest metropolitan area. The Association is reported herein as a separate corporation and it is included in the financial statements of the University.

The Association's mission to provide quality intercollegiate athletic programs through a comprehensive sports program requires a major financial commitment of both operating and capital resources. In addition, the Association is committed to achieving athletic excellence for its student-athletes, maintaining NCAA compliance, ensuring full implementation of gender equity plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors.

During the fiscal year ended June 30, 2006 the Association entered the Big East Conference. As the Big East Conference champions, the football team was able to compete in the Orange Bowl, part of the Bowl Championship Series for the first time in the team's history. Another first occurred when the baseball team won the regional championship, going on to play in the College World Series.

In addition to the athletic achievements, the Association invested in the academic achievement and community involvement of the student-athletes. This year included the first ever student athlete valedictorian. Through the CardsCare program, the student-athletes exceeded over 4,000 hours in community service.

#### Financial Highlights

The Association's financial position at June 30, 2007 is characterized by the following:

- Total assets were \$141.4 million, an increase of \$3.0 million, or 2%, from June 30, 2006. The most significant increases were in the current assets, which increased \$2.8 million, or 13%, from June 30, 2006.
- Total liabilities were \$52.6 million, a decrease of \$1.7 million, or 3%, from June 30, 2006.
- Net assets, which represent the residual interest in assets after liabilities are deducted, were \$88.8 million, an increase of \$4.7 million, or 6%, from June 30, 2006.
- Operating revenues amounted to \$32.8 million. When offset by operating expenses of \$46.2 million, an operating loss of \$13.4 million resulted. The operating loss was offset by \$18.1 million of net nonoperating revenues resulting in an increase in net assets of \$4.7 million for the year ended June 30, 2007.

- Net nonoperating revenues of \$18.1 million consisted of \$16.7 million in gifts and \$5.2 million in net investment gains less \$3.8 million of other net expenses.

With the Association's increase of \$4.7 million in net assets for the year ended June 30, 2007, assets exceed liabilities by a ratio of 2.7 to 1. The Association's most significant asset, Papa John's Cardinal Stadium complex, is reflected at its historic cost of \$72.7 million less \$18.1 million in accumulated depreciation for a net capitalized value of \$54.6 million. Bonds payable associated with the stadium amount to \$12.3 million as of June 30, 2007 and represent 23% of the stadium's capitalized value, net of accumulated depreciation.

The Association's operating loss was only slightly higher than the previous year, as the increased expenses were offset by increased revenues.

The Association also had net realized and unrealized gains of \$4.4 million on funds held in the combined investment pool through the University of Louisville Foundation, Inc. (Foundation). Due to the effects of these gains, total funds invested with the Foundation increased 12% from \$34.5 million to \$38.7 million during the year.

### **Statements of Net Assets**

The statements of net assets present the financial position of the Association at the end of each fiscal year and include all assets and liabilities. Net assets, the difference between total assets and total liabilities, provides a summary of the current financial condition of the Association at the end of a fiscal year. The change in net assets indicates whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. Pledges receivable with payment terms greater than one year are discounted. Capital assets are stated at historical cost less an allowance for accumulated depreciation. The condensed statements of the Association's assets, liabilities and net assets at June 30, 2007, 2006, and 2005 are displayed on the following page:

**Condensed Statements of Net Assets**  
**June 30, 2007, 2006, and 2005**  
(In Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2007 - 2006</u> <u>Change</u>	<u>2006 - 2005</u> <u>Change</u>
<b>ASSETS</b>					
Current assets	\$ 23,911	\$ 21,099	\$ 15,437	\$ 2,812	\$ 5,662
Long-term investments	38,790	34,739	33,501	4,051	1,238
Capital assets, net	60,471	61,323	62,291	(852)	(968)
Other	18,198	21,258	24,278	(3,060)	(3,020)
Total assets	<u>141,370</u>	<u>138,419</u>	<u>135,507</u>	<u>2,951</u>	<u>2,912</u>
<b>LIABILITIES</b>					
Current liabilities	22,788	22,334	19,508	454	2,826
Noncurrent liabilities	29,843	31,959	35,444	(2,116)	(3,485)
Total liabilities	<u>52,631</u>	<u>54,293</u>	<u>54,952</u>	<u>(1,662)</u>	<u>(659)</u>
<b>NET ASSETS</b>					
Invested in capital assets,	48,166	46,331	45,686	1,835	645
Restricted-nonexpendable	1,150	1,051	923	99	128
Restricted-expendable	7,501	12,340	16,513	(4,839)	(4,173)
Unrestricted	31,922	24,404	17,433	7,518	6,971
Total net assets	<u>\$ 88,739</u>	<u>\$ 84,126</u>	<u>\$ 80,555</u>	<u>\$ 4,613</u>	<u>\$ 3,571</u>

**Assets:**

Current assets of \$23.9 million represent 17% of total assets. These assets mainly consist of \$19.3 million in cash and cash equivalents and \$3.4 million in accounts and contributions receivable. Current assets have increased \$2.8 million, or 13%, due mainly to the \$3.2 million increase in cash and cash equivalents. This increase is due mainly to increases in cash received from NCAA distributions of \$2.0 million.

The remaining \$117.5 million, or 83% of total assets, is classified as noncurrent. The Association's most significant long-term assets are \$60.5 million in net capital assets, \$38.7 million in investments held with the Foundation, and \$9.2 million in accounts and contributions receivable. Noncurrent assets remained consistent with the prior year, as the \$4.2 million increase in investments held with the Foundation was offset by the \$3.5 million decrease in accounts and contributions receivable.

**Liabilities:**

Current liabilities were \$22.8 million at June 30, 2007. This consists primarily of \$17.4 million in deferred revenues for advanced football and basketball ticket sales and sponsorships. The remaining \$5.4 million represents accounts payable and accrued expenses, deferred compensation and wages payable, and the current portion of loans, bonds and notes payable. Current liabilities remained similar to the prior year, increasing only 2%.

Noncurrent liabilities were \$29.8 million, or 57% of total liabilities, at June 30, 2007. The most significant noncurrent liability consists of \$11.4 million in bonds and notes payable for Papa John's Cardinal Stadium. The Association also has \$12.1 million in interest-free loans from the University and the Foundation in noncurrent liabilities. These loans relate to the construction of the Stadium and Cardinal Park.

The \$2.1 million decrease in noncurrent liabilities is due mainly to principal payments on bonds and notes payable of \$2.7 million and note payable to Foundation of \$0.5 million. The decrease in bonds and notes payable was offset by the reclassification of \$1.8 million from the current portion of bonds and notes payable.

**Net Assets:**

Total net assets of \$88.8 million as of June 30, 2007 are reported in the following net asset categories: invested in capital assets, net of related debt, \$48.2 million (53%); restricted nonexpendable, \$1.2 million (1%); restricted-expendable, \$7.5 million (12%); and unrestricted, \$31.9 million (34%).

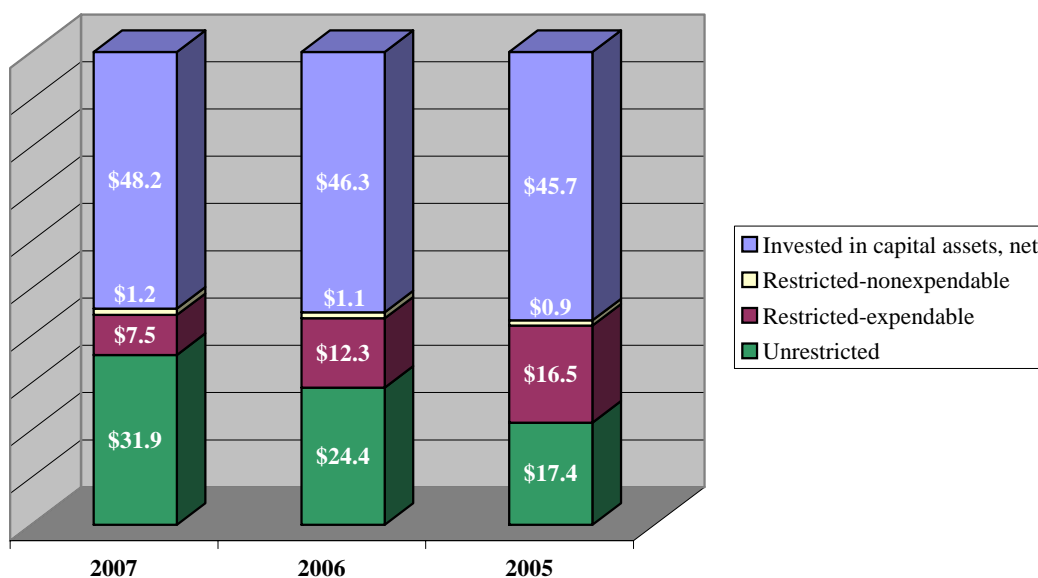
Net assets invested in capital assets, net of related debt, represents primarily the net investment in Papa John’s Cardinal Stadium. Restricted nonexpendable net assets are subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. The Association’s restricted nonexpendable assets consist of permanent endowments for scholarships.

The restricted expendable net assets of the Association consist of net assets subject to externally imposed restrictions from donors (\$3.1 million), debt instruments (\$3.9 million), and other contractual obligations (\$0.5 million) that govern their use. As compared to June 30, 2006, restricted expendable net assets for debt service decreased by \$2.9 million. This decrease is due mainly to the use of the net assets to make scheduled principal payments.

Unrestricted net assets increased \$7.5 million over the prior year balance of \$24.4 million. This increase is due mainly to the \$3.4 million in unrealized gains on investments the Association has held by the Foundation. Additionally, the Association received \$3.7 million in transfers from the University to fund certain initiatives of the Association, such as gender equity.

A graphic illustration of net assets as of June 30, 2007, 2006, and 2005 is as follows:

**Net Assets as of June 30, 2007, 2006, and 2005**



**Fiscal year 2006**

Total assets at June 30, 2006 were \$138.4 million, an increase of \$2.9 million compared to the \$135.5 million as of June 30, 2005. The increase is due mainly to increases in cash and cash equivalents of \$5.9 million, related to increases in cash received from ticket sales and gifts of \$3.0 million and \$2.5 million, respectively. This increase was offset by decreases in restricted cash and cash equivalents of \$1.6 million, as the Association uses available cash to complete capital projects; and accounts and contributions receivable of \$2.1 million, as the Association did not have new large capital projects that typically result in pledges.

Liabilities at June 30, 2006 were similar to June 30, 2005, changing only 1%. The increase of \$2.8 million in deferred revenue was offset by the decrease in bonds and notes payable of \$1.6 million. Deferred revenue increased as the ticket prices and sponsorship levels for the 2006 football season were increased over the prior year amounts.

Net assets at June 30, 2006 were \$84.1 million, an increase of \$3.6 million from the June 30, 2005 net assets of \$80.5 million. This increase is due mainly to the increase in gift revenue of \$3.0 million recognized during the year.

## Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets presents the Association's results of operations. Revenues and expenses are categorized as operating or nonoperating revenues or expenses according to their source or purpose. Significant sources of revenues such as gifts, investment returns and the supplemental income received from the University for gender equity purposes, as well as the student fees collected, are classified as nonoperating activities. Capitalized assets are being depreciated over their useful lives. Depreciation is recognized as an operating expense. The Association's condensed statements of revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006 and 2005 are as follows:

### Condensed Statements of Revenues, Expenses and Changes in Net Assets Years ended June 30, 2007, 2006, and 2005 (In Thousands)

	2007	2006	2005	2007 - 2006 Change	2006 - 2005 Change
<b>OPERATING REVENUES</b>					
Sports	\$ 26,257	\$ 23,268	\$ 17,396	\$ 2,989	\$ 5,872
Other operating revenues	6,504	6,425	6,062	79	363
Total operating revenues	<u>32,761</u>	<u>29,693</u>	<u>23,458</u>	<u>3,068</u>	<u>6,235</u>
<b>OPERATING EXPENSES</b>					
Sports	26,280	23,910	22,115	2,370	1,795
Other operating expenses	17,948	16,578	15,665	1,370	913
Depreciation	2,005	1,927	1,878	78	49
Total operating expenses	<u>46,233</u>	<u>42,415</u>	<u>39,658</u>	<u>3,818</u>	<u>2,757</u>
Operating loss	<u>(13,472)</u>	<u>(12,722)</u>	<u>(16,200)</u>	<u>(750)</u>	<u>3,478</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	16,675	17,308	20,917	(633)	(3,609)
Net realized and unrealized gain on investments	4,405	2,029	2,121	2,376	(92)
Investment income (net of investment expense)	803	723	809	80	(86)
Other nonoperating expenses	(716)	(860)	(823)	144	(37)
Net assets transferred to related entities	<u>(3,082)</u>	<u>(2,907)</u>	<u>(1,279)</u>	<u>(175)</u>	<u>(1,628)</u>
Net nonoperating revenues	<u>18,085</u>	<u>16,293</u>	<u>21,745</u>	<u>1,792</u>	<u>(5,452)</u>
Increase in net assets	4,613	3,571	5,545	1,042	(1,974)
<b>NET ASSETS</b>					
Net assets-beginning of year	84,126	80,555	75,010	3,571	5,545
Net assets-end of year	<u>\$ 88,739</u>	<u>\$ 84,126</u>	<u>\$ 80,555</u>	<u>\$ 4,613</u>	<u>\$ 3,571</u>

### Operating Revenues:

Total operating revenues were \$32.8 million and \$29.7 million for the years ended June 30, 2007 and 2006, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised \$26.3 million, or 80% of total operating revenues for the year. Other operating revenues amounting to \$6.5 million and \$6.4 million for the years ended June 30, 2007 and 2006, respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts.

The \$3.0 million increase in sports revenue results mainly from an increase in football revenue of \$2.3 million, or 19%, due to increased ticket sales and contractual receipt of \$1.0 million.

### **Operating Expenses:**

Total operating expenses were \$46.2 million and \$42.4 million for the years ended June 30, 2007 and 2006, respectively. The expenses consist mainly of \$26.3 million in direct sports-related expenses. For the year ended June 30, 2007 the remaining \$19.9 million in operating expenses consist mainly of marketing and development of \$4.8 million; support services of \$4.4 million; and administrative expenses of \$3.7 million. The depreciation expense of \$2.0 million is associated primarily with Papa John's Cardinal Stadium.

Total operating expenses increased by \$3.8 million, or 9%, in the current year due mainly to expenses related to the sports programs. Other sports, not including men's basketball and football, expense increased \$1.8 million, or 18%. This increase is due mainly to increases in women's sports, which had an increase in expense of \$1.1 million. Additionally, the Association had several teams in post season tournaments this year, including the baseball team, track and field, and both women's and men's golf.

### **Operating Loss, Nonoperating Revenues and the Increase in Net Assets:**

The Association's loss from operations amounted to \$13.4 million and \$12.7 million for the years ended June 30, 2007 and 2006, respectively. During the fiscal year ended June 30, 2007, the operating loss was offset by the \$18.1 million in nonoperating revenues leaving an increase in net assets of \$4.7 million. This is an increase from the \$3.6 million increase in net assets realized during the fiscal year ended June 30, 2006.

The \$1.8 million increase in nonoperating revenues is due mainly to the \$2.4 million increase in net realized and unrealized gains on investments. These investments are held in the Foundation and the Association receives the benefit of all market value adjustments.

### **Fiscal year 2006**

The Association had an increase in net assets for the year ended June 30, 2006 of \$3.6 million, which was a decrease from the \$5.5 million increase for the fiscal year ended June 30, 2005. Operating revenues increased \$6.2 million due mainly to an additional home game for the football team. At the same time, operating expenses increased by \$2.8 million, or 7%, due mainly to increases in other sports, including an increase of \$0.7 million in women's sport expenses.

Nonoperating revenues decreased by \$5.5 million due mainly to decreased capital gift revenue as the Association started construction on only one project during the year, after several years of multiple projects.

## Statements of Cash Flows

The Statements of Cash Flows provide information about the Association's sources and uses of cash during the year. Cash inflows and outflows are categorized as operating, noncapital and related financing, capital financing and investing activities. A summary of the Association's cash flow activity for the years ended June 30, 2007, 2006 and 2005 is as follows:

### Condensed Statements of Cash Flows Years ended June 30, 2007, 2006, and 2005 (In Thousands)

	2007	2006	2005	2007 - 2006 Change	2006 - 2005 Change
Cash (used)/provided by:					
Operating activities	\$ (10,632)	\$ (10,294)	\$ (8,951)	\$ (338)	\$ (1,343)
Noncapital financing activities	13,395	12,256	11,444	1,139	812
Capital financing activities	(66)	1,660	5,134	(1,726)	(3,474)
Investing activities	1,302	679	1,159	623	(480)
Net increase in cash and cash equivalents	3,999	4,301	8,786	(302)	(4,485)
Cash and cash equivalents, beginning of year	21,237	16,936	8,150	4,301	8,786
Cash and cash equivalents, end of year	<u>\$ 25,236</u>	<u>\$ 21,237</u>	<u>\$ 16,936</u>	<u>\$ 3,999</u>	<u>\$ 4,301</u>

### Operating activities

The Association's cash and cash equivalents increased by \$4.0 million during the year. The Association experienced a net outflow of \$10.6 million in cash paid for operations, similar to the fiscal year ended June 30, 2006. Cash provided by NCAA distributions increased \$2.0 million, due mainly to the \$1.4 million increase in distributions related to the football team's participation in the Orange Bowl. Additionally, the Association received \$1.0 million related to contractual obligations that is shown in other athletic program receipts.

This was offset by the increase in payments to employees of \$1.1 million. This is due mainly to increases in coaches' salaries and bonuses.

### Other activities

Cash provided by noncapital and related financing activities of \$13.4 million offset the cash used by operating activities. These cash flows consist primarily of \$15.0 million in gifts received to support the sports programs. The cash provided by the gifts was offset by the \$1.6 million in cash transferred to related entities. During the current fiscal year, the Association transferred approximately \$4.8 million to the University related to construction projects and bond payments for the Association. This was offset by the approximately \$3.2 million transferred to the Association from the University related to gender equity, retention, and student fees collected for use by the Association.

Cash used by capital financing relates mainly to the scheduled payments on long term liabilities of \$2.7 million and the note payable to the Foundation of \$0.5 million. Additionally the Association purchased capital assets of \$0.9 million. These uses of cash were offset by the \$4.3 million of capital pledges received.

Cash provided by investing activities remained similar to the prior year, with \$0.8 million of interest on investments received.

## **Fiscal year 2006**

The Association's cash and cash equivalents increased by \$4.3 million during the year ended June 30, 2006. As compared to the fiscal year ended June 30, 2005, the Association used \$1.3 million more cash for operations and \$3.5 million more for capital financing activities.

During the fiscal year ended June 30, 2006 the Association received \$3.0 million more related to ticket sales due mainly to increased revenue and increased ticket prices for the 2005 football season. This was offset by the \$4.0 million increase in payments to suppliers, as the increased number of football and men's basketball games led to increased expenses.

The decrease in cash provided by capital financing activities relates to the decrease in capital gifts received of \$2.1 million. The decrease is due to the timing of pledge payments and the decrease in the amount of construction.

## **Economic Factors that May Affect Future Periods**

The Association's capital goals for the current year include:

- Implementing and monitoring an agreement with the Louisville Arena Authority
- Finalizing construction on the new YUM! Indoor Practice Facility for men's basketball and women's volleyball
- Continue fund raising for the expansion of the Stadium, Field Hockey expansion, and the Boathouse for the rowing team

During the year ended June 30, 2003, the Association's Board of Directors and the University's Board of Trustees approved a resolution to assess a student fee specifically designated to support the Association. The initial fee was \$25 per student charged each semester beginning September 2003. The fee increased from \$25 in September 2003 to \$50 per semester in fiscal year 2007. During fiscal year 2008, the fee will be \$50 per semester and is expected to generate approximately \$1.7 million.

The Association's Board of Directors approved a balanced operating budget for the 2008 fiscal year. The budget calls for \$45.9 million in revenue and expenses, a 12% increase over the original 2007 fiscal year budget of \$40.9 million. The budget calls for increases in football and men's basketball revenue of 18% and 15%, with corresponding increases in expenses of 10% and 9%, respectively. The other main source of revenue, annual Cardinal Athletic Fund donations, is projected to increase 14% over the approved 2007 fiscal year budget to \$10.5 million, but remain similar to actual revenue of \$10.6 million.

**University of Louisville Athletic Association, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Net Assets**  
**As of June 30, 2007 and 2006**  
**(In Thousands)**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 19,336	\$ 16,145
Deposits with bond trustee	874	1,042
Accounts and contributions receivable, net	3,445	3,760
Other assets	256	152
Total current assets	<u>23,911</u>	<u>21,099</u>
Noncurrent Assets:		
Restricted cash	5,900	5,092
Deposit with bond trustee	2,446	2,780
Accounts and contributions receivable, net	9,157	12,653
Investments held with University of Louisville Foundation, Inc.	38,690	34,539
Other long-term investments	100	200
Other long-term assets	695	733
Capital assets, net	60,471	61,323
Total noncurrent assets	<u>117,459</u>	<u>117,320</u>
Total assets	<u>141,370</u>	<u>138,419</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	1,791	1,035
Deferred compensation and wages payable	2,264	1,210
Deferred revenue	17,373	16,936
Note payable to University of Louisville Foundation, Inc.	500	500
Bonds and notes payable	860	2,653
Total current liabilities	<u>22,788</u>	<u>22,334</u>
Noncurrent Liabilities:		
Due to University of Louisville	8,563	8,563
Due to University of Louisville Foundation, Inc.	316	316
Deferred compensation and wages payable	5,533	5,841
Note payable to University of Louisville Foundation, Inc.	3,205	3,705
Deferred revenue	781	958
Other long term liabilities	-	237
Bonds and notes payable	11,445	12,339
Total noncurrent liabilities	<u>29,843</u>	<u>31,959</u>
Total liabilities	<u>52,631</u>	<u>54,293</u>
<b>NET ASSETS</b>		
Invested in capital assets, net	48,166	46,331
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,150	1,051
Expendable		
Scholarships and fellowships	278	242
Institutional support	1,279	1,160
Capital projects	1,587	3,682
Debt service	3,889	6,783
Other	468	473
Unrestricted	31,922	24,404
Total net assets	<u>\$ 88,739</u>	<u>\$ 84,126</u>

See notes to financial statements

**University of Louisville Athletic Association, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2007 and 2006**  
**(In Thousands)**

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Operating revenues		
Sports:		
Basketball	\$ 11,629	\$ 10,948
Football	14,332	11,994
Other sports	296	326
Total sports	<u>26,257</u>	<u>23,268</u>
Papa John's Cardinal Stadium	450	462
Marketing & development	4,129	3,981
Administration	1,019	1,049
Support services	334	284
Other operating revenues	572	649
Total operating revenues	<u>32,761</u>	<u>29,693</u>
<b>EXPENSES</b>		
Operating expenses		
Sports:		
Basketball	6,229	6,772
Football	8,740	7,589
Other sports	11,311	9,549
Total sports	<u>26,280</u>	<u>23,910</u>
Papa John's Cardinal Stadium	654	572
Marketing & development	4,789	4,814
Administration	3,660	3,158
Support services	4,397	3,783
Game management/facilities operations	1,656	1,707
Depreciation	2,005	1,927
Other operating expenses	2,792	2,544
Total operating expenses	<u>46,233</u>	<u>42,415</u>
Operating loss	<u>(13,472)</u>	<u>(12,722)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	14,953	14,113
Investment income (net of investment expense)	803	723
Net realized and unrealized gain on investments	4,405	2,029
Interest on capital related debt	(718)	(789)
Other nonoperating expenses	2	(71)
Net nonoperating revenues	<u>19,445</u>	<u>16,005</u>
Capital gifts	1,722	3,195
Transfers to related entities	(3,082)	(2,907)
Total other revenues	<u>18,085</u>	<u>16,293</u>
Increase in net assets	4,613	3,571
<b>NET ASSETS</b>		
Net assets-beginning of year	84,126	80,555
Net assets-end of year	<u>\$ 88,739</u>	<u>\$ 84,126</u>

See notes to financial statements

**University of Louisville Athletic Association, Inc.**  
**A Component Unit of the University of Louisville**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2007 and 2006**  
(In Thousands)

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Ticket sales	\$ 17,283	\$ 17,801
NCAA distributions	5,384	3,420
Payments to suppliers	(18,596)	(18,114)
Payments to employees	(16,327)	(15,237)
Payments for utilities	(131)	(134)
Payments for benefits	(2,951)	(2,337)
Payments for scholarships and fellowships	(7,889)	(7,308)
Other athletic program receipts, net	12,595	11,615
Net cash used by operating activities	(10,632)	(10,294)
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Gifts	15,011	15,234
Transfers to related entities	(1,618)	(2,907)
Other payments	2	(71)
Net cash provided by noncapital and related financing activities	13,395	12,256
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Principal paid on loan payable to the University of Louisville Foundation, Inc.	(500)	(500)
Capital gifts received	4,278	5,218
Purchases of capital assets	(941)	(991)
Principal paid on long-term liabilities	(2,687)	(1,613)
Interest paid on long-term liabilities	(718)	(780)
Deposits with bond trustee	502	326
Net cash (used)/provided by capital financing activities	(66)	1,660
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	3,844	9,892
Purchase of investments	(3,332)	(9,923)
Interest on investments	790	710
Net cash provided by investing activities	1,302	679
Net increase in cash and cash equivalents	3,999	4,301
Cash and cash equivalents - beginning of year	21,237	16,936
Cash and cash equivalents - end of year	\$ 25,236	\$ 21,237
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (13,472)	\$ (12,722)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,005	1,927
Loss on disposal of equipment	-	32
Forgiveness of loan payable to University of Louisville Foundation, Inc.	-	(195)
Change in assets and liabilities:		
Accounts and contributions receivable, net	(152)	71
Other assets	(66)	(846)
Accounts payable and accrued liabilities	551	(31)
Deferred revenue	161	1,273
Deferred compensation and wages payable	486	142
Other long-term liabilities	(145)	55
Net cash used by operating activities	\$ (10,632)	\$ (10,294)
Capital asset additions in accounts payable	\$ 212	\$ -

See notes to financial statements

**University of Louisville Athletic Association, Inc.**

**A Component Unit of the University of Louisville**

**Notes to Financial Statements**

**June 30, 2007 and 2006**

1. Basis of Presentation and Summary of Significant Accounting Policies

The University of Louisville Athletic Association, Inc. (Association) (a Kentucky not-for-profit corporation) is affiliated with the University of Louisville (University) and is included within the University's financial statements. The Association is a separate corporation organized for the purpose of promoting the intercollegiate athletic activities of the University. The Association has authorized the University to receive, hold and disburse funds on behalf of the Association.

a. Basis of Presentation

The financial statements are presented in accordance with Government Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37.

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the Association's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Association has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

The financial statements of the Association can be found at the following:  
<http://www.louisville.edu/vpf/financialadm/statements.html>

b. Cash and Cash Equivalents

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

c. Deposits with Bond Trustee

As of June 30, 2007 and 2006, deposits with bond trustee consist of cash and investments in governmental securities of \$3.3 million and \$3.6 million, respectively, of Stadium Project Lease Revenue Bonds and \$0.0 million and \$0.2 million, respectively, of Adjustable Rate Stadium Revenue Bonds.

d. Contributions Receivable

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, the Association records operating and capital

pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

e. Investments

Investments are stated at current market value. Investments held with the University of Louisville Foundation, Inc. (Foundation) are invested under the policies and objectives established for the Foundation's general endowment pool. In an effort to mitigate market risk, the Foundation has adopted a policy of maintaining a diverse investment pool through the use of target asset allocation guidelines. These guidelines require that the Foundation's investment pool be made up of a mix of publicly traded fixed income and equity securities, private equities and other nonmarketable securities, and real estate investments.

The market risk inherent in certain of the Foundation's investments is primarily the potential loss arising from adverse changes in quoted market prices on equity securities and in interest rates on fixed income securities.

The Association's permanent endowment funds, held by the Foundation and invested in the Foundation's general endowment pool, are administered under the Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky. Under the UMIFA regulations, the donor's contributed principal is preserved in perpetuity and invested by employing a total return strategy. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

The Foundation invests in various corporate debt, equity and mutual fund securities. Investment securities, in general, are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Foundation's statements of financial position.

f. Capital Assets

Capital assets are stated principally at cost or estimated market value at date of receipt from donors. Capital assets are depreciated on the straight-line basis over the estimated useful lives of the assets, as follows: buildings - 40 years; equipment - 3-15 years; and leasehold improvements - 20 years.

g. Compensation Expenses

Deferred compensation expenses are recognized as earned over the term of the related employment agreements.

h. Deferred Revenues

Deferred revenues, which consists primarily of amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, and parking revenue, was approximately \$18.2 million and \$17.9 million at June 30, 2007 and 2006, respectively. Such deferred revenues are recognized over the term of the related athletic activities.

i. Classification of Revenues

The Association has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) tickets for athletic events, (2) concession sales, (3) parking and facilities rentals, and (4) media contracts.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as investment income.

j. Net Assets

Net assets of the Association are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net assets are subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Association, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

k. Tax Status

As an affiliate of a state institution of higher education, the income of the Association is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the Association is subject to federal income tax on any unrelated business taxable income.

l. Use of Estimates

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

## 2. Cash and Investments

### a. Summary of Carrying Values

The fair market value of deposits and investments are included in the statements of net assets as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Deposits	\$ 25,236	\$ 21,237
Investments		
U.S. Treasury obligations	3,320	3,822
Investments held with the University of Louisville Foundation, Inc.	38,690	34,539
Certificates of deposit	100	100
Annuities	-	100
	<u>\$ 67,346</u>	<u>\$ 59,798</u>
Included in the following statement of net assets captions:		
Cash and cash equivalents	\$ 19,336	\$ 16,145
Deposit with bond trustee-current	874	1,042
Restricted cash and cash equivalents	5,900	5,092
Deposit with bond trustee-noncurrent	2,446	2,780
Investments held with the University of Louisville Foundation, Inc.	38,690	34,539
Other long-term investments	100	200
	<u>\$ 67,346</u>	<u>\$ 59,798</u>

### b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, an Association's deposits or collateral securities may not be returned to it. For administrative convenience, cash balances of the Association are included in bank accounts maintained by the University. Details of accounting transactions affecting cash are maintained in such a manner as to ensure an appropriate segregation of amounts maintained by each entity.

The University currently uses commercial banks and the Commonwealth of Kentucky (the Commonwealth) as its depositories. Deposits with commercial banks are substantially covered by federal depository insurance or collateral held by the bank in the University's name. At the Commonwealth, the University's accounts are pooled with other agencies of the Commonwealth. These Commonwealth-pooled deposits are substantially covered by federal depository insurance or by collateral held by the Commonwealth in the Commonwealth's name.

### c. Interest Rate Risk

Interest rate risk is the risk a government may face should interest rate variances affect the fair value of investments. The Association's policy is to invest in U.S. government and U.S. government agency securities, commercial paper, bankers acceptances, and variable rate demand notes with a maturity not greater than one year. The Association has entered into

forward purchase agreements for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve. The final maturity under these agreements is March 1, 2018.

As of June 30, 2007 and 2006, the Association had the following investments subject to interest rate risk (in thousands):

June 30, 2007					
Type	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 3,320	\$ 304	\$ 1,506	\$ 1,510	\$ -
Certificates of deposit	100	100	-	-	-
	<u>\$ 3,420</u>	<u>\$ 404</u>	<u>\$ 1,506</u>	<u>\$ 1,510</u>	<u>\$ -</u>

June 30, 2006					
Type	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 3,822	\$ 503	\$ 1,509	\$ 380	\$ 1,430
Certificates of deposit	100	100	-	-	-
	<u>\$ 3,922</u>	<u>\$ 603</u>	<u>\$ 1,509</u>	<u>\$ 380</u>	<u>\$ 1,430</u>

d. Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2007 the \$38.6 million in investments held by the Foundation are considered pooled investments and not rated as to credit risk.

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments.

The asset allocation for investments held with the Foundation as of June 30, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Preferred and common stock	32%	34%
Corporate bonds	2%	3%
Mutual funds	44%	42%
Real estate	2%	2%
Investment in partnerships	9%	9%
U.S. government securities	4%	4%
Marketable alternatives	7%	6%
	<u>100%</u>	<u>100%</u>

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

f. Foreign Currency Risk

This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. The Association had no investments denominated in foreign currency at June 30, 2007 or 2006.

3. Transactions with Related Organizations

a. University of Louisville

The Association has contracted with the University for certain administrative, operational, and maintenance services. The Association has reimbursed the University for these services in the amount of approximately \$228,000 for the year ended June 30, 2006. During the year ended June 30, 2007 the Association made no reimbursement per agreement with the University.

b. University of Louisville Foundation, Inc. (Foundation)

The Foundation is a separate corporation organized as a supporting organization of the University for the purpose of promoting the University's educational, scientific, literary and cultural interests. The Foundation serves in a fiduciary capacity and invests funds on behalf of the Association based on a formal trust agreement. As of June 30, 2007 and 2006, the Foundation held funds of the Association of approximately \$38.7 million and \$34.5 million, respectively, for investment purposes.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2007 and 2006 are as follows (in thousands):

	<b>2007</b>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 849		\$ 849
Contributions receivable	15,846	\$ (2,079)	13,767
Total	<u>\$ 16,695</u>	<u>\$ (2,079)</u>	14,616
Less: Discount			(2,014)
Current portion			<u>3,445</u>
Non current portion			<u>\$ 9,157</u>
	<b>2006</b>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 528		\$ 528
Contributions receivable	18,095	\$ (836)	17,259
Total	<u>\$ 18,623</u>	<u>\$ (836)</u>	17,787
Less: Discount			(1,374)
Current portion			<u>3,760</u>
Non current portion			<u>\$ 12,653</u>

Contributions receivable consist primarily of charitable gifts from individual and corporate donors that are associated with the construction projects of the Association. Contributions receivable with payment schedules in excess of one year are stated at their discounted present value. The discount rates ranged from 1.2% to 5.9%.

Contributions receivable as of June 30, 2007 and 2006 are due to be received as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Less than one year	\$ 3,049	\$ 3,515
One to three years	5,078	5,699
Greater than three years	<u>7,719</u>	<u>8,881</u>
Subtotal	15,846	18,095
Less: discount	(2,014)	(1,374)
Less: allowance	<u>(2,079)</u>	<u>(836)</u>
Net contributions receivable	<u>\$ 11,753</u>	<u>\$ 15,885</u>

5. Capital Assets, Net

Capital assets as of June 30, 2007 and 2006 are as follows (in thousands):

	<b>2007</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Transfers</b>	
<b>Cost-Non depreciable</b>					
Land	\$ 3,500				\$ 3,500
Construction in progress	688	\$ 852		\$ (1,327)	213
Subtotal	<u>4,188</u>	<u>852</u>	<u>\$ -</u>	<u>(1,327)</u>	<u>3,713</u>
<b>Cost-Depreciable</b>					
Buildings	72,658	-	-	382	73,040
Land improvements	-	6	-	945	951
Equipment	584	295	(13)	-	866
Leasehold improvements	500	-	-	-	500
Subtotal	<u>73,742</u>	<u>301</u>	<u>(13)</u>	<u>1,327</u>	<u>75,357</u>
Total capital assets-cost	<u>77,930</u>	<u>1,153</u>	<u>(13)</u>	<u>-</u>	<u>79,070</u>
<b>Accumulated depreciation</b>					
Buildings	16,232	1,830	-	-	18,062
Land improvements	-	16	-	-	16
Equipment	201	139	(13)	-	327
Leasehold improvements	174	20	-	-	194
Subtotal	<u>16,607</u>	<u>2,005</u>	<u>(13)</u>	<u>-</u>	<u>18,599</u>
Capital assets, net	<u>\$ 61,323</u>	<u>\$ (852)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,471</u>

	<b>2006</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Cost-Non depreciable</b>					
Land	\$ 3,500				\$ 3,500
Construction in progress	42	\$ 646			688
Subtotal	<u>3,542</u>	<u>646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,188</u>
<b>Cost-Depreciable</b>					
Buildings	72,658	-	-	-	72,658
Equipment	284	345	(45)	-	584
Leasehold improvements	500	-	-	-	500
Subtotal	<u>73,442</u>	<u>345</u>	<u>(45)</u>	<u>-</u>	<u>73,742</u>
Total capital assets-cost	<u>76,984</u>	<u>991</u>	<u>(45)</u>	<u>-</u>	<u>77,930</u>
<b>Accumulated depreciation</b>					
Buildings	14,416	1,816	-	-	16,232
Equipment	123	91	(13)	-	201
Leasehold improvements	154	20	-	-	174
Subtotal	<u>14,693</u>	<u>1,927</u>	<u>(13)</u>	<u>-</u>	<u>16,607</u>
Capital assets, net	<u>\$ 62,291</u>	<u>\$ (936)</u>	<u>\$ (32)</u>	<u>\$ -</u>	<u>\$ 61,323</u>

#### 6. Debt with Related Entities

As of June 30, 2007 and 2006, the Association currently has non-interest bearing debt of approximately \$8.6 million with the University related to expenditures incurred in fiscal years 1999 and 2000 during the construction of the Stadium.

In January 1999, the Association received an \$8.5 million unsecured, non-interest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivables are held by the University and collections are transferred to the Association for the repayment of the loan. During each of the years ended June 30, 2007 and 2006, the Association repaid approximately \$0.5 million. During the year ended June 30, 2006, \$0.2 million of this loan was forgiven.

In July 2001, the Association received a \$347,000 unsecured, non-interest bearing loan from the Foundation for the refurbishing of the Cardinal Basketball Offices. The outstanding loan balance is approximately \$316,000 as of June 30, 2007 and 2006.

7. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2007 and 2006 are summarized as follows (in thousands):

	<b>2007</b>				
	<b>Beginning Balance</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Bonds payable	\$ 14,925	\$ (2,620)	\$ 12,305	\$ 860	\$ 11,445
Note payable to bank	67	(67)	-	-	-
Total	<u>\$ 14,992</u>	<u>\$ (2,687)</u>	<u>\$ 12,305</u>	<u>\$ 860</u>	<u>\$ 11,445</u>

	<b>2006</b>				
	<b>Beginning Balance</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Bonds payable	\$ 16,505	\$ (1,580)	\$ 14,925	\$ 2,620	\$ 12,305
Note payable to bank	100	(33)	67	33	34
Total	<u>\$ 16,605</u>	<u>\$ (1,613)</u>	<u>\$ 14,992</u>	<u>\$ 2,653</u>	<u>\$ 12,339</u>

Details of bonds and notes payable at June 30, 2007 and 2006 are as follows (in thousands):

	<b>Interest Rate</b>	<b>Year of Final Maturity</b>	<b>Balance Outstanding June 30, 2007</b>	<b>Balance Outstanding June 30, 2006</b>
County of Jefferson, Kentucky Governmental Project Lease Revenue Bonds, Series 1997	4.8% to 5.4%	2018	\$ 12,305	\$ 13,125
County of Jefferson, Kentucky Adjustable Rate Sports Stadium Revenue Bonds, Series 1997	Variable to maximum of 10%	2007	-	1,800
Note payable	Variable	2007	-	67
Total			<u>\$ 12,305</u>	<u>\$ 14,992</u>

Principal and interest payments on bonds and notes payable due in the next five years and thereafter are as follows (in thousands):

<b>For the Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 860	\$ 651	\$ 1,511
2009	900	608	1,508
2010	945	563	1,508
2011	995	515	1,510
2012	1,045	463	1,508
2013 - 2017	6,130	1,414	7,544
2018	1,430	77	1,507
Total	<u>\$ 12,305</u>	<u>\$ 4,291</u>	<u>\$ 16,596</u>

**County of Jefferson (the County), Kentucky Governmental Project Lease Revenue Bonds, Series 1997**

In March 1997, the County issued \$18.5 million of lease revenue bonds to be used for the acquisition, construction and installation of the Stadium. The Association entered into a Trust Indenture and Financing Agreement with the County, which requires the Association to pay the trustee for all monetary obligations of the bonds. The County has entered into a lease agreement with the University and has agreed to make lease payments to the Trustee of up to \$2 million annually if the Association is unable to pay the minimum debt requirements, as defined in the lease agreement. The County has also entered into a Sublease and Assignment Agreement with the City of Louisville (the City) whereby the City will make sublease rental payments to the County of up to 50% of the amounts paid as lease rental payments by the County.

**County of Jefferson, Kentucky Adjustable Rate Sports Stadium Revenue Bonds, Series 1997**

In May 1997, the County issued \$10 million in revenue bonds, the proceeds of which were loaned to the Association for the construction of the Stadium. The Association made final payment on these bonds on May 2007, leaving no outstanding balance.

## 8. Other Liabilities

Other liabilities as of June 30, 2007 and 2006 are summarized as follows (in thousands):

	<b>2007</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Due to University of Louisville	\$ 8,563			\$ 8,563		\$ 8,563
Due to University of Louisville Foundation Inc.	316			316		316
Deferred compensation and wages payable	7,051	\$ 2,082	\$ (1,336)	7,797	\$ 2,264	5,533
Deferred revenue	17,894	16,831	(16,571)	18,154	17,373	781
Note payable to University of Louisville Foundation, Inc.	4,205	-	(500)	3,705	500	3,205
Other long-term liabilities	237	-	(237)	-	-	-
Total	<u>\$ 38,266</u>	<u>\$ 18,913</u>	<u>\$ (18,644)</u>	<u>\$ 38,535</u>	<u>\$ 20,137</u>	<u>\$ 18,398</u>
	<b>2006</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Due to University of Louisville	\$ 8,563			\$ 8,563		\$ 8,563
Due to University of Louisville Foundation Inc.	316			316		316
Deferred compensation and wages payable	7,830	\$ 2,122	\$ (2,901)	7,051	\$ 1,210	5,841
Deferred revenue	15,288	16,552	(13,946)	17,894	16,936	958
Note payable to University of Louisville Foundation, Inc.	4,900	-	(695)	4,205	500	3,705
Other long-term liabilities	338	55	(156)	237	-	237
Total	<u>\$ 37,235</u>	<u>\$ 18,729</u>	<u>\$ (17,698)</u>	<u>\$ 38,266</u>	<u>\$ 18,646</u>	<u>\$ 19,620</u>

## 9. Expenses

Operating expenses by natural classification for the years ended June 30, 2007 and 2006 were approximately (in thousands):

	<u>2007</u>	<u>2006</u>
Salaries and wages	\$ 17,101	\$ 15,379
Employee benefits	2,760	2,295
Supplies and services	16,551	15,558
Scholarships and fellowships	7,816	7,256
Depreciation	2,005	1,927
	<u>\$ 46,233</u>	<u>\$ 42,415</u>

## 10. Retirement Plan

Association and University personnel participate in a contributory retirement plan administered by the University. The Association recorded expenses related to the defined contribution plan of approximately \$839,000 and \$624,000 during the years ended June 30, 2007 and 2006, respectively.

## 11. Leases

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of a basketball arena. The University's rights under this agreement have been assigned to the Association.

The lease has an initial term of 25 years. Annual lease payments are equal to the greater of 10 percent of gross ticket sales or a minimum lease amount of \$5,000 per game and annual lease payments for private suites are 9.75 percent of the first \$35,000 of gross rental income and 25 percent thereafter. Total lease expense during the years ended June 30, 2007 and 2006 amounted to approximately \$836,000 and \$786,000, respectively.

The University also entered into an agreement with the KSFB for use of a football stadium. Due to the construction of an on-campus stadium, the lease was amended and restated effective November 1, 1997 to allow for the use by the baseball and field hockey programs. The University's rights under this agreement have been assigned to the Association.

During the fiscal year ended June 30, 2007, the Association entered into a lease agreement with Central Station, LLC (Central Station) for use of the Central Station Office Building. The lease has an initial term of 21 years. Annual lease payments are approximately \$47,000. In addition, the Association paid approximately \$799,000 of lease payments in advance (\$38,000 in other current assets and \$695,000 in other long-term assets as of June 30, 2007), which will be amortized evenly over the life of the lease. Total lease expenses during the years ended June 30, 2007 and 2006 amounted to approximately \$83,000 and \$68,000, respectively, of which \$38,000 and \$28,000, respectively, relates to the amortization of prepaid rent.

Future minimum lease payments are as follows (in thousands):

<u>For the year ended June 30,</u>	<u>Lease Payment Due</u>
2008	\$ 97
2009	102
2010	102
2011	102
2012	102
2013 - 2017	534
2018 - 2022	563
2023 - 2027	334
Future minimum lease payments	<u>\$ 1,936</u>

## 12. Commitments and Contingencies

### a. Commitments

At June 30, 2007 and 2006, the Association had approximately \$1,313,000 and \$1,501,000, respectively, in encumbrances outstanding for future expenditures.

### b. Litigation

The Association has been named as defendant in several lawsuits. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity, commercial insurance coverages and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the Association beyond the amounts already provided.

## 13. Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefit expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006. Based on actuary calculations, the University's actuarial accrued liability at July 1, 2007 is \$69.2 million and the annual required contribution will be \$8.4 million for the fiscal year ended June 30, 2008. It has not been decided how much of the liability or expense will be allocated to the Association.