

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

**Accountants' Report and Financial Statements
June 30, 2008 and 2007**

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, 2008 and 2007, 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, 2008 and 2007, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As discussed in Note 10, the Association changed its method of accounting for postemployment health care benefits under GASB 45 in 2008.

BKD, LLP

October 3, 2008

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, 2008, 2007, and 2006. 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. The Association had five teams finish as the champion of the conference during the fiscal year ended June 30, 2008. This includes men's baseball, which was a first in the Association's history, and women's field hockey, which was a repeat giving the program its first ever consecutive championship.

The Association continues to support the athletic achievements of the students by expanding and improving the facilities. Some continuing projects include the Marshall Center, a 9,000 square foot Olympic sport performance center for 19 sports; the Randy S. Waldman Complex, a 5,000 square foot locker room and office complex and an expansion of Trager Stadium to 2,500 seats, both of which are used for field hockey. New projects to be started soon include a rowing center on the Ohio River, the downtown arena, and the expansion of Papa John's Cardinal Stadium.

In addition to the athletic achievements, the Association invested in the academic achievement and community involvement of the student athletes. This year over 300 student athletes achieved a 3.0 grade point average or better for the fall and spring semesters. Through the CardsCare program, the student athletes exceeded over 6,000 hours in community service.

Financial Highlights

The Association's financial position at June 30, 2008 is characterized by the following:

- Total assets were \$158.4 million, an increase of \$17.0 million, or 12%, from June 30, 2007. The most significant increases were in the current assets, which increased \$10.7 million, or 45%, from June 30, 2007.
- Total liabilities were \$55.6 million, an increase of \$3.0 million, or 6%, from June 30, 2007.

- Net assets, which represent the residual interest in assets after liabilities are deducted, were \$102.8 million, an increase of \$14.0 million, or 16%, from June 30, 2007.
- Operating revenues amounted to \$33.8 million. When offset by operating expenses of \$54.3 million, an operating loss of \$20.5 million resulted. The operating loss was offset by \$34.5 million of net nonoperating revenues resulting in an increase in net assets of \$14.0 million for the year ended June 30, 2008.
- Net nonoperating revenues of \$34.5 million consisted of \$36.6 million in gifts less \$1.1 million in net investment loss and \$1.0 million of other net expenses.

With the Association's increase of \$14.0 million in net assets for the year ended June 30, 2008, assets exceed liabilities by a ratio of 2.8 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 \$19.9 million in accumulated depreciation for a net capitalized value of \$52.8 million. Bonds payable associated with the stadium amount to \$11.4 million as of June 30, 2008 and represent 22% of the stadium's capitalized value, net of accumulated depreciation.

The Association's operating loss increased \$7.0 million, or 52% over the \$13.5 million operating loss during the fiscal year ended June 30, 2007. This is due mainly to the \$8.0 million, or 17%, increase in operating expenses, to which the sports programs are the main contributors.

The Association offset the operating loss with an increase in total gifts \$19.9 million. The majority of the new gifts and pledges relate to the Papa John's Cardinal Stadium expansion project.

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, provide 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, 2008, 2007, and 2006 are displayed on the following page:

Condensed Statements of Net Assets
June 30, 2008, 2007, and 2006
(In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008 - 2007</u> Change	<u>2007 - 2006</u> Change
ASSETS					
Current assets	\$ 34,564	\$ 23,911	\$ 21,099	\$ 10,653	\$ 2,812
Long-term investments	39,597	38,790	34,739	807	4,051
Capital assets, net	59,312	60,471	61,323	(1,159)	(852)
Other	24,900	18,198	21,258	6,702	(3,060)
Total assets	<u>158,373</u>	<u>141,370</u>	<u>138,419</u>	<u>17,003</u>	<u>2,951</u>
LIABILITIES					
Current liabilities	23,848	22,788	22,334	1,060	454
Noncurrent liabilities	31,771	29,843	31,959	1,928	(2,116)
Total liabilities	<u>55,619</u>	<u>52,631</u>	<u>54,293</u>	<u>2,988</u>	<u>(1,662)</u>
NET ASSETS					
Invested in capital assets,	47,868	48,166	46,331	(298)	1,835
Restricted-nonexpendable	1,293	1,150	1,051	143	99
Restricted-expendable	16,089	7,501	12,340	8,588	(4,839)
Unrestricted	37,504	31,922	24,404	5,582	7,518
Total net assets	<u>\$ 102,754</u>	<u>\$ 88,739</u>	<u>\$ 84,126</u>	<u>\$ 14,015</u>	<u>\$ 4,613</u>

Assets:

Current assets of \$34.6 million represent 22% of total assets. These assets mainly consist of \$21.4 million in cash and cash equivalents and \$12.0 million in accounts and contributions receivable. Current assets have increased \$10.7 million, or 45%, due mainly to the increase in accounts and contributions receivable of \$8.6 million, due primarily to new pledges related to the expansion of Papa John's Cardinal Stadium. Additionally, the Association had a \$2.1 million increase in cash and cash equivalents. This increase is due mainly to increases in cash received from ticket sales of \$2.0 million and increases in receipts of capital gift payments of \$2.2 million.

The remaining \$123.8 million, or 78% of total assets, is classified as noncurrent. The Association's most significant long-term assets are \$59.3 million in net capital assets, \$39.2 million in investments held with the University of Louisville Foundation, Inc. (Foundation), and \$17.1 million in accounts and contributions receivable. Noncurrent assets increased \$6.4 million over the prior year, due mainly to increases in accounts and contributions receivable, net. During the year, the Association received approximately \$22.4 million in new pledges and commitments related mainly to the expansion of Papa John's Cardinal Stadium. The new pledges were offset by payments of approximately \$4.2 million and normal reclassifications to current accounts and contributions receivable.

Liabilities:

Current liabilities were \$23.8 million at June 30, 2008. This consists primarily of \$19.3 million in deferred revenues for advanced football and basketball ticket sales and sponsorships. The remaining \$4.5 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 5%.

Noncurrent liabilities were \$31.8 million, or 57% of total liabilities, at June 30, 2008. The most significant noncurrent liability consists of \$10.5 million in bonds and notes payable for Papa John's Cardinal Stadium. The Association also has \$11.6 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 \$1.9 million increase in noncurrent liabilities is due mainly to increases in deferred compensation and wages payable of \$1.6 million and deferred revenue of \$1.5 million. The increase in deferred compensation and wages payable is due to increased contractual obligations of the Association. The increase in deferred revenue relates mainly to tickets and other benefits to be received in the future in connection with contributions receivable. These increases were offset by scheduled principal payments on bonds and notes payable of \$0.9 million and note payable to Foundation of \$0.5 million.

Net Assets:

Total net assets of \$102.8 million as of June 30, 2008 are reported in the following net asset categories: invested in capital assets, net of related debt, \$47.9 million (47%); restricted nonexpendable, \$1.3 million (1%); restricted-expendable, \$16.1 million (16%); and unrestricted, \$37.5 million (36%).

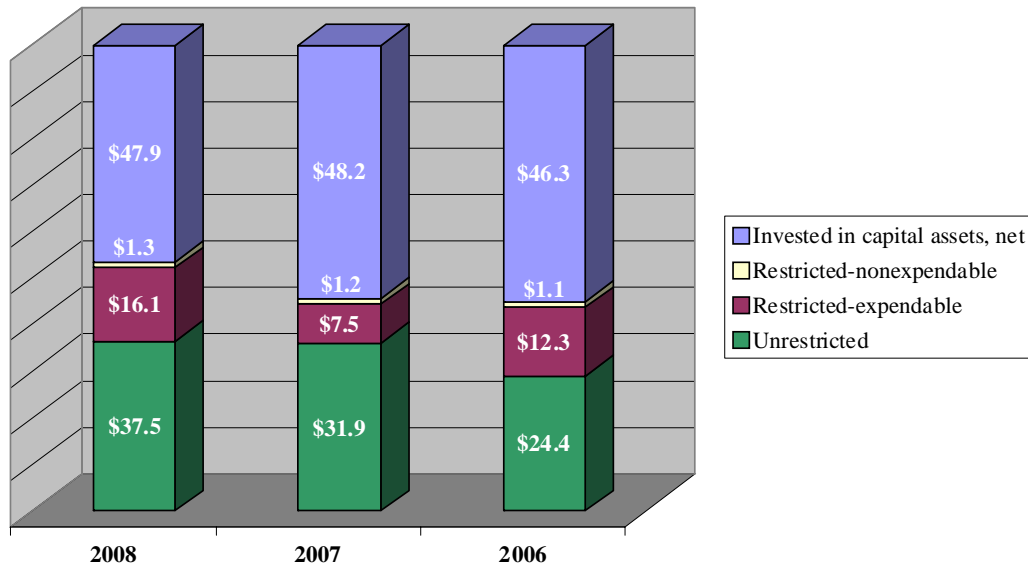
Net assets invested in capital assets, net of related debt, represents primarily the net investment in Papa John's Cardinal Stadium. Restricted nonexpendable net assets are subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. The Association's 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 (\$10.3 million), debt instruments (\$5.5 million), and other contractual obligations (\$0.3 million) that govern their use. When compared to June 30, 2007, restricted expendable net assets for capital projects increased by \$6.7 million. This increase is due mainly to the restrictions on new contributions and pledges received during the year to be used for specific capital projects.

Unrestricted net assets increased \$5.6 million over the prior year balance of \$31.9 million. This increase is due mainly to the \$10.6 million increase in gifts received by the Association during the year, related mainly to the expansion of Papa John's Cardinal Stadium.

A graphic illustration of net assets as of June 30, 2008, 2007, and 2006 is as follows:

Net Assets as of June 30, 2008, 2007, and 2006



Fiscal year 2007

Total assets at June 30, 2007 were \$141.4 million, an increase of \$3.0 million compared to the \$138.4 million as of June 30, 2006. The increase is due mainly to increases in cash and cash equivalents of \$3.2 million, related to increases in cash received from NCAA distributions of \$2.0 million. The increase in investments held with the Foundation of \$4.2 million is related to increased market values of the investments. This increase was offset by the decrease of \$3.5 million in noncurrent accounts and contributions receivable due to payments received by the donors.

Liabilities at June 30, 2007 were similar to June 30, 2006, decreasing only 3%. The decrease of \$1.7 million is due mainly to the overall decrease in bonds and notes payable of \$2.7 million. This decrease is a result of scheduled debt payments on the bonds.

Net assets at June 30, 2007 were \$88.8 million, an increase of \$4.7 million from the June 30, 2006 net assets of \$84.1 million. This increase is due mainly to the increase in unrealized gains on investments of \$3.4 million related to the investments held with the Foundation.

Statements of Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present 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, 2008, 2007 and 2006 are as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets Years ended June 30, 2008, 2007, and 2006 (In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008 - 2007 Change</u>	<u>2007 - 2006 Change</u>
OPERATING REVENUES					
Sports	\$ 26,213	\$ 26,257	\$ 23,268	\$ (44)	\$ 2,989
Other operating revenues	7,565	6,504	6,425	1,061	79
Total operating revenues	<u>33,778</u>	<u>32,761</u>	<u>29,693</u>	<u>1,017</u>	<u>3,068</u>
OPERATING EXPENSES					
Sports	30,481	26,280	23,910	4,201	2,370
Other operating expenses	21,761	17,948	16,578	3,813	1,370
Depreciation	2,038	2,005	1,927	33	78
Total operating expenses	<u>54,280</u>	<u>46,233</u>	<u>42,415</u>	<u>8,047</u>	<u>3,818</u>
Operating loss	<u>(20,502)</u>	<u>(13,472)</u>	<u>(12,722)</u>	<u>(7,030)</u>	<u>(750)</u>
NONOPERATING REVENUES (EXPENSES)					
Gifts	36,596	16,675	17,308	19,921	(633)
Net realized and unrealized gain on investments	(1,068)	4,405	2,029	(5,473)	2,376
Investment income (net of investment expense)	613	803	723	(190)	80
Other nonoperating expenses	(626)	(716)	(860)	90	144
Net assets transferred to related entities	<u>(998)</u>	<u>(3,082)</u>	<u>(2,907)</u>	<u>2,084</u>	<u>(175)</u>
Net nonoperating revenues	<u>34,517</u>	<u>18,085</u>	<u>16,293</u>	<u>16,432</u>	<u>1,792</u>
Increase in net assets	14,015	4,613	3,571	9,402	1,042
NET ASSETS					
Net assets-beginning of year	88,739	84,126	80,555	4,613	3,571
Net assets-end of year	<u>\$ 102,754</u>	<u>\$ 88,739</u>	<u>\$ 84,126</u>	<u>\$ 14,015</u>	<u>\$ 4,613</u>

Operating Revenues:

Total operating revenues were \$33.8 million and \$32.8 million for the years ended June 30, 2008 and 2007, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised \$26.2 million, or 78% of total operating revenues for the year. Other operating revenues amounting to \$7.6 million and \$6.5 million for the years ended June 30, 2008 and 2007, respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts.

The \$1.0 million increase in operating revenue results mainly from an increase in marketing and development revenue of \$1.0 million due to the assessment of a fee on football tickets that will be used to support marketing and development of the Papa John's Cardinal Stadium expansion project.

Operating Expenses:

Total operating expenses were \$54.3 million and \$46.2 million for the years ended June 30, 2008 and 2007, respectively. The expenses consist mainly of \$30.5 million in direct sports-related expenses. For the year ended June 30, 2008 the remaining \$23.8 million in operating expenses consist mainly of marketing and development of \$5.7 million; administrative expenses of \$5.2 million; and support services of \$4.5 million. The depreciation expense of \$2.0 million is associated primarily with Papa John's Cardinal Stadium.

Total operating expenses increased by \$8.1 million, or 17%, in the current year due mainly to expenses related to the sports programs. Other sports expense, not including men's basketball and football, increased \$1.8 million, or 16%. This increase is due mainly to increases in women's sports, which had an increase in expense of \$1.1 million, including \$0.3 million for lacrosse, which is in its second year. Additionally, other operating expenses increased \$1.0 million over the prior year, due mainly to the \$0.3 million in allocated expenses from the University related to other post-employment benefits. This is the first year for which other post-employment benefits are required by accounting standards to be recognized.

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

The Association's loss from operations amounted to \$20.5 million and \$13.4 million for the years ended June 30, 2008 and 2007, respectively. During the fiscal year ended June 30, 2008, the operating loss was offset by the \$34.5 million in nonoperating revenues leaving an increase in net assets of \$14.0 million. This is an increase from the \$4.7 million increase in net assets realized during the fiscal year ended June 30, 2007.

The \$16.4 million increase in nonoperating revenues is due mainly to the \$10.6 million increase in gifts and the \$9.3 million increase in capital gifts. The increase in gifts is due mainly to the gifts associated with seating in the expansion of Papa John's Cardinal Stadium. The capital gifts include approximately \$11.9 million in new pledges related to the Papa John's Cardinal Stadium expansion project.

Fiscal year 2007

The Association had an increase in net assets for the year ended June 30, 2007 of \$4.7 million, which was an increase from the \$3.6 million increase for the fiscal year ended June 30, 2006. Operating revenues increased \$3.1 million due mainly to increased football revenue of \$2.3 million and a contractual receipt of \$1.0 million. At the same time, operating expenses increased by \$3.8 million, or 9%, due mainly to increases in other sports, including an increase of \$1.1 million in women's sport expenses. Additionally, the Association had an increase in the number of teams that competed in post-season tournaments.

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.

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, 2008, 2007 and 2006 is as follows:

Condensed Statements of Cash Flows Years ended June 30, 2008, 2007, and 2006 (In Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2008 - 2007</u> <u>Change</u>	<u>2007 - 2006</u> <u>Change</u>
Cash (used)/provided by:					
Operating activities	\$ (15,102)	\$ (10,632)	\$ (10,294)	\$ (4,470)	\$ (338)
Noncapital financing activities	15,870	13,395	12,256	2,475	1,139
Capital financing activities	1,688	(66)	1,660	1,754	(1,726)
Investing activities	(1,220)	1,302	679	(2,522)	623
Net increase in cash and cash equivalents	<u>1,236</u>	<u>3,999</u>	<u>4,301</u>	<u>(2,763)</u>	<u>(302)</u>
Cash and cash equivalents, beginning of year	<u>25,236</u>	<u>21,237</u>	<u>16,936</u>	<u>3,999</u>	<u>4,301</u>
Cash and cash equivalents, end of year	<u>\$ 26,472</u>	<u>\$ 25,236</u>	<u>\$ 21,237</u>	<u>\$ 1,236</u>	<u>\$ 3,999</u>

Operating activities

The Association's cash and cash equivalents increased by \$1.2 million during the year. The Association experienced a net outflow of \$15.1 million in cash paid for operations, an increase of \$4.5 million, or 42% compared to the fiscal year ended June 30, 2007. Cash provided by ticket sales increased \$2.0 million, due mainly increased receipts for the 2008 football season, which includes two additional home games.

This was offset by the increase in payments for benefits of \$3.4 million and a decrease in NCAA distributions of \$1.6 million. The increase in payments to employees is due mainly to increases in coaches' salaries and bonuses, as well as the payment of a one time contractual obligation. In the fiscal year ended June 30, 2007, distributions from the NCAA were higher due to the football team's appearance in the Orange Bowl.

Other activities

Cash provided by noncapital and related financing activities of \$15.9 million offset the cash used by operating activities. These cash flows consist primarily of \$16.9 million in gifts received to support the sports programs. The cash provided by the gifts was offset by the \$1.0 million in cash transferred to related entities. During the current fiscal year, the Association transferred approximately \$5.0 million to the University primarily related to construction projects and bond payments for the Association. This was offset by the approximately \$4.0 million transferred to the Association from the University related to gender equity, retention, and student fees collected for use by the Association.

Cash provided by capital financing relates mainly to the receipt of \$4.5 million in capital gifts and pledge payments. This was offset by the scheduled payments on long term liabilities of \$0.9 million and the note payable to the Foundation of \$0.5 million. Additionally the Association purchased capital assets of \$1.1 million.

Cash used by investing activities increased by \$2.5 million, due mainly to the net purchase of \$1.8 million in investments. The additional investments are mainly a result of the Association's decision to move \$1.3 million to the funds invested with the Foundation in order to take advantage of investment earning opportunities.

Fiscal year 2007

The Association's cash and cash equivalents increased by \$4.0 million during the year ended June 30, 2007. As compared to the fiscal year ended June 30, 2006, the Association used \$0.3 million more cash for operations and \$1.7 million more for capital financing activities.

During the fiscal year ended June 30, 2007 the Association received \$2.0 million more related to NCAA distributions due mainly to the football team's participation in the Orange Bowl. This was offset by the \$1.1 million increase in payments to employees related mainly to increases in coaches' salaries and bonuses.

The decrease in cash provided by capital financing activities relates to the increase in principal payments on long-term liabilities of \$1.1 million. Additionally, the Association received \$0.9 million less in capital gift payments as compared to the fiscal year ended June 30, 2006.

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 and starting the marketing on the Arena in preparation of opening in 2010
- Finalizing construction on the Field Hockey expansion, including new bleachers and a strength/conditioning area for 19 sports programs
- Continue fund raising for the expansion of the Papa John's Cardinal Stadium and a 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 2008. During fiscal year 2009, 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 2009 fiscal year. The budget calls for \$50.7 million in revenue and expenses, a 10% increase over the original 2008 fiscal year budget of \$45.9 million. The budget calls for increases in football and men's basketball revenue of 20% and 11%, 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 3% over the approved fiscal year 2008 budget to \$10.5 million, which is conservative when compared to actual revenue of \$11.0 million.

This financial report is designed to provide a general overview of the Association's finances and to show the Association's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Controller; University of Louisville; Louisville, KY 40292.

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Net Assets
As of June 30, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 21,424	\$ 19,336
Deposits with bond trustee	915	874
Accounts and contributions receivable, net	12,009	3,445
Other assets	216	256
Total current assets	<u>34,564</u>	<u>23,911</u>
Noncurrent Assets:		
Restricted cash	5,048	5,900
Deposit with bond trustee	2,123	2,446
Accounts and contributions receivable, net	17,072	9,157
Investments held with University of Louisville Foundation, Inc.	39,201	38,690
Other long-term investments	396	100
Other long-term assets	657	695
Capital assets, net	59,312	60,471
Total noncurrent assets	<u>123,809</u>	<u>117,459</u>
Total assets	<u>158,373</u>	<u>141,370</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	1,434	1,791
Deferred compensation and wages payable	1,658	2,264
Deferred revenue	19,356	17,373
Note payable to University of Louisville Foundation, Inc.	500	500
Bonds and notes payable	900	860
Total current liabilities	<u>23,848</u>	<u>22,788</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	7,166	5,533
Note payable to University of Louisville Foundation, Inc.	2,705	3,205
Deferred revenue	2,276	781
Other long term liabilities	200	-
Bonds and notes payable	10,545	11,445
Total noncurrent liabilities	<u>31,771</u>	<u>29,843</u>
Total liabilities	<u>55,619</u>	<u>52,631</u>
NET ASSETS		
Invested in capital assets, net	47,868	48,166
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,293	1,150
Expendable		
Scholarships and fellowships	584	278
Institutional support	1,369	1,279
Capital projects	8,316	1,587
Debt service	5,539	3,889
Other	281	468
Unrestricted	37,504	31,922
Total net assets	<u>\$ 102,754</u>	<u>\$ 88,739</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, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Sports:		
Basketball	\$ 11,948	\$ 11,629
Football	13,503	14,332
Other sports	762	296
Total sports	<u>26,213</u>	<u>26,257</u>
Papa John's Cardinal Stadium	556	450
Marketing & development	5,154	4,129
Administration	850	1,019
Support services	347	334
Other operating revenues	658	572
Total operating revenues	<u>33,778</u>	<u>32,761</u>
OPERATING EXPENSES		
Sports:		
Basketball	7,321	6,229
Football	10,013	8,740
Other sports	13,147	11,311
Total sports	<u>30,481</u>	<u>26,280</u>
Papa John's Cardinal Stadium	698	654
Marketing & development	5,676	4,789
Administration	5,191	3,660
Support services	4,525	4,397
Game management/facilities operations	1,883	1,656
Depreciation	2,038	2,005
Other operating expenses	3,788	2,792
Total operating expenses	<u>54,280</u>	<u>46,233</u>
Operating loss	<u>(20,502)</u>	<u>(13,472)</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	25,566	14,953
Investment income (net of investment expense)	613	803
Net realized and unrealized (loss)/gain on investments	(1,068)	4,405
Interest on capital related debt	(637)	(718)
Other nonoperating expenses	11	2
Net nonoperating revenues	<u>24,485</u>	<u>19,445</u>
Capital gifts	11,030	1,722
Transfers to related entities	(998)	(3,082)
Total other revenues	<u>34,517</u>	<u>18,085</u>
Increase in net assets	<u>14,015</u>	<u>4,613</u>
NET ASSETS		
Net assets-beginning of year	88,739	84,126
Net assets-end of year	<u>\$ 102,754</u>	<u>\$ 88,739</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, 2008 and 2007
(In Thousands)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Ticket sales	\$ 19,323	\$ 17,283
NCAA distributions	3,813	5,384
Payments to suppliers	(19,262)	(18,596)
Payments to employees	(16,683)	(16,327)
Payments for utilities	(140)	(131)
Payments for benefits	(6,309)	(2,951)
Payments for scholarships and fellowships	(8,786)	(7,889)
Other athletic program receipts, net	12,942	12,595
Net cash used by operating activities	<u>(15,102)</u>	<u>(10,632)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts	16,857	15,011
Transfers to related entities	(998)	(1,618)
Other payments	11	2
Net cash provided by noncapital and related financing activities	<u>15,870</u>	<u>13,395</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal paid on loan payable to the University of Louisville Foundation, Inc.	(500)	(500)
Capital gifts received	4,461	4,278
Purchases of capital assets	(1,102)	(941)
Principal paid on long-term liabilities	(860)	(2,687)
Interest paid on long-term liabilities	(608)	(718)
Deposits with bond trustee	297	502
Net cash provided/(used) by capital financing activities	<u>1,688</u>	<u>(66)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	8,946	3,844
Purchase of investments	(10,765)	(3,332)
Interest on investments	599	790
Net cash (used)/provided by investing activities	<u>(1,220)</u>	<u>1,302</u>
Net increase in cash and cash equivalents	1,236	3,999
Cash and cash equivalents - beginning of year	25,236	21,237
Cash and cash equivalents - end of year	<u>\$ 26,472</u>	<u>\$ 25,236</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (20,502)	\$ (13,472)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,038	2,005
Loss on disposal of equipment	11	-
Change in assets and liabilities:		
Accounts and contributions receivable, net	10	(152)
Other assets	(115)	(66)
Accounts payable and accrued liabilities	(130)	551
Deferred revenue	2,134	161
Deferred compensation and wages payable	1,252	486
Other long-term liabilities	200	(145)
Net cash used by operating activities	<u>\$ (15,102)</u>	<u>\$ (10,632)</u>
Capital asset additions in accounts payable	<u>\$ -</u>	<u>\$ 212</u>

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, 2008 and 2007

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, 2008 and 2007, deposits with bond trustees consist of cash and investments in governmental securities of \$3.0 million and \$3.3 million, respectively, of Stadium Project Lease 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 \$21.6 million and \$18.2 million at June 30, 2008 and 2007, 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>2008</u>	<u>2007</u>
Deposits	\$ 26,472	\$ 25,236
Investments		
U.S. Treasury obligations	3,038	3,320
Investments held with the University of Louisville Foundation, Inc.	39,201	38,690
Certificates of deposit	100	100
Annuities	296	-
	<u>\$ 69,107</u>	<u>\$ 67,346</u>
Included in the following statement of net assets captions:		
Cash and cash equivalents	\$ 21,424	\$ 19,336
Deposit with bond trustee-current	915	874
Restricted cash and cash equivalents	5,048	5,900
Deposit with bond trustee-noncurrent	2,123	2,446
Investments held with the University of Louisville Foundation, Inc.	39,201	38,690
Other long-term investments	396	100
	<u>\$ 69,107</u>	<u>\$ 67,346</u>

b. Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the 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, 2008 and 2007, the Association had the following investments subject to interest rate risk (in thousands):

June 30, 2008				
Type	Fair Value	Maturities in years		
		Less than 1	1-5	6-10
U.S. Treasury obligations	\$ 3,038	\$ 323	\$ 1,205	\$ 1,510
Certificates of deposit	100	100	-	-
	<u>\$ 3,138</u>	<u>\$ 423</u>	<u>\$ 1,205</u>	<u>\$ 1,510</u>

June 30, 2007				
Type	Fair Value	Maturities in years		
		Less than 1	1-5	6-10
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>

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, 2008, the \$39.2 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, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Preferred and common stock	20%	32%
Corporate bonds	3%	2%
Mutual funds	45%	44%
Real estate	2%	2%
Investment in partnerships	11%	9%
U.S. government securities	3%	4%
Marketable alternatives	16%	7%
	<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, 2008 or 2007.

3. Transactions with Related Organizations

a. University of Louisville

The Association has contracted with the University for certain administrative, operational, and maintenance services. During the years ended June 30, 2008 and 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, 2008 and 2007, the Foundation held funds of the Association of approximately \$39.2 million and \$38.7 million, respectively, for investment purposes.

c. Debt with Related Entities

As of June 30, 2008 and 2007, 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, 2008 and 2007, the Association repaid approximately \$0.5 million. The outstanding balance was approximately

\$3.2 million and \$3.7 million as of June 30, 2008 and 2007, respectively, of which approximately \$0.5 million was shown as current as of June 30, 2008 and 2007.

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, 2008 and 2007.

d. Transfers with Related Entities

The University, during its annual budgetary process, agrees to transfer funds to the Association to assist with expense related to retention and gender issues. The University transferred \$2.1 million and \$1.8 million for the fiscal years ended June 30, 2008 and 2007. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred \$1.9 million of student fees collected for each of the years ended June 30, 2008 and 2007.

The Association is the beneficiary of pledges related to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University. The Association transfers cash received on these pledges, as well as other unrestricted funds to the University in order to fulfill the purpose of the gifts. The Association transferred \$4.3 million and \$4.5 million related to capital projects during the fiscal years ended June 30, 2008 and 2007, respectively.

In July 2006, the University became a member of the Big East Conference. As part of the Membership Expansion Agreement, the University agreed to pay entrance fees of \$2.5 million over a 5 year period. The Association transferred \$0.5 million for each of the years ended June 30, 2008 and 2007 related to this agreement.

Additionally, the Association transferred \$0.2 million and \$1.7 million for the years ended June 30, 2008 and 2007 related to other transactions.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2008 and 2007 are as shown below and on the following page (in thousands):

	2008		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 642		\$ 642
Contributions receivable	31,979	\$ (1,097)	30,882
Total	<u>\$ 32,621</u>	<u>\$ (1,097)</u>	31,524
Less: Discount			(2,443)
Current portion			<u>12,009</u>
Non current portion			<u>\$ 17,072</u>

	2007		
	<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>

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 5.8%.

Contributions receivable as of June 30, 2008 and 2007 are due to be received as follows (in thousands):

	<u>2008</u>	<u>2007</u>
Less than one year	\$ 11,712	\$ 3,049
One to three years	7,553	5,078
Greater than three years	12,714	7,719
Subtotal	<u>31,979</u>	<u>15,846</u>
Less: discount	(2,443)	(2,014)
Less: allowance	<u>(1,097)</u>	<u>(2,079)</u>
Net contributions receivable	<u>\$ 28,439</u>	<u>\$ 11,753</u>

5. Capital Assets, Net

Capital assets as of June 30, 2008 and 2007 are as follows (in thousands):

	2008				Ending Balance
	Beginning Balance	Additions	Retire- ments	Transfers	
Cost-Non depreciable					
Land	\$ 3,500				\$ 3,500
Construction in progress	213	\$ 669		\$ (882)	-
Subtotal	<u>3,713</u>	<u>669</u>	<u>\$ -</u>	<u>(882)</u>	<u>3,500</u>
Cost-Depreciable					
Buildings	73,040	-	-	669	73,709
Land improvements	951	-	-	213	1,164
Equipment	866	221	(24)	-	1,063
Leasehold improvements	500	-	-	-	500
Subtotal	<u>75,357</u>	<u>221</u>	<u>(24)</u>	<u>882</u>	<u>76,436</u>
Total capital assets-cost	<u>79,070</u>	<u>890</u>	<u>(24)</u>	<u>-</u>	<u>79,936</u>
Accumulated depreciation					
Buildings	18,062	1,830	-	-	19,892
Land improvements	16	29	-	-	45
Equipment	327	159	(13)	-	473
Leasehold improvements	194	20	-	-	214
Subtotal	<u>18,599</u>	<u>2,038</u>	<u>(13)</u>	<u>-</u>	<u>20,624</u>
Capital assets, net	<u>\$ 60,471</u>	<u>\$ (1,148)</u>	<u>\$ (11)</u>	<u>\$ -</u>	<u>\$ 59,312</u>

	2007				
	Beginning Balance	Additions	Retire- ments	Transfers	Ending Balance
Cost-Non depreciable					
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>
Cost-Depreciable					
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>
Accumulated depreciation					
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>

6. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2008 and 2007 are summarized as follows (in thousands):

	2008				
	Beginning Balance	Retire- ment	Ending Balance	Current Portion	Noncurrent Portion
County of Jefferson, Kentucky Governmental Project Lease Revenue Bonds, Series 1997 Interest rates of 4.8% to 5.4% Final Maturity in 2018	\$ 12,305	\$ (860)	\$ 11,445	\$ 900	\$ 10,545
Total	<u>\$ 12,305</u>	<u>\$ (860)</u>	<u>\$ 11,445</u>	<u>\$ 900</u>	<u>\$ 10,545</u>
	2007				
	Beginning Balance	Retire- ment	Ending Balance	Current Portion	Noncurrent Portion
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>

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

For the Year Ended June 30	Principal	Interest	Total
2009	\$ 900	\$ 608	\$ 1,508
2010	945	563	1,508
2011	995	515	1,510
2012	1,045	463	1,508
2013	1,100	408	1,508
2014 - 2018	6,460	1,083	7,543
Total	<u>\$ 11,445</u>	<u>\$ 3,640</u>	<u>\$ 15,085</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. In May 2007, these bonds were retired.

7. Other Liabilities

Other liabilities as of June 30, 2008 and 2007 are summarized as follows (in thousands):

	2008					
	Beginning Balance	Additions	Retire- ment	Ending Balance	Current Portion	Noncurrent Portion
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	7,797	\$ 3,258	\$ (2,231)	8,824	\$ 1,658	7,166
Deferred revenue	18,154	20,590	(17,112)	21,632	19,356	2,276
Note payable to University of Louisville Foundation, Inc.	3,705	-	(500)	3,205	500	2,705
Other long-term liabilities	-	302	-	302	102	200
Total	<u>\$ 38,535</u>	<u>\$ 24,150</u>	<u>\$ (19,843)</u>	<u>\$42,842</u>	<u>\$21,616</u>	<u>\$ 21,226</u>
	2007					
	Beginning Balance	Additions	Retire- ment	Ending Balance	Current Portion	Noncurrent Portion
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>

Other long-term liabilities as of June 30, 2008, consist of the Association's portion of other post-employment benefits, as discussed in Note 10 – Post Employment Healthcare Benefits. The current portion is included in Accounts payable and accrued liabilities in the statements of net assets as of June 30, 2008.

8. Expenses

Operating expenses by natural classification for the years ended June 30, 2008 and 2007 were approximately (in thousands):

	<u>2008</u>	<u>2007</u>
Salaries and wages	\$ 17,667	\$ 15,780
Employee benefits	6,542	4,081
Supplies and services	19,107	16,347
Utilities	140	131
Scholarships and fellowships	8,786	7,889
Depreciation	2,038	2,005
	<u>\$ 54,280</u>	<u>\$ 46,233</u>

9. 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 \$968,000 and \$839,000 during the years ended June 30, 2008 and 2007, respectively.

10. Postemployment Healthcare Benefits

a. Plan Description

Association and University personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. To be eligible for the Plan, a retired employee must be the earlier of the attainment of age 60 with seven years of service in eligible faculty or staff status, or the date that the sum of the employees age and years of regular service of not less than 80% full-time equivalent at the University equals or exceeds 75.

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. During the year ended June 30, 2008, the University contributed approximately \$1.0 million, approximately 50 percent of total premiums. Retired Plan members under age 65 receiving benefits contributed approximately \$1.0 million, approximately 50 percent of total premiums, through their required monthly contributions according to the following schedule:

	<u>PPO</u>	<u>EPO</u>	<u>HRA High</u>	<u>HRA Low</u>	<u>Out of Area</u>
Employee	\$ 270	\$ 304	\$ 178	\$ 119	\$ 286
Employee and Spouse	\$ 581	\$ 653	\$ 431	\$ 321	\$ 586

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For the year ended June 30, 2008, the University contributed \$1.0 million for Medicare-eligible retirees.

c. Annual Other Postemployment Benefit (OPEB) Cost and Net OPEB Obligation

The University's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (AAL) over a period not to exceed thirty years. The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation (in thousands):

	<u>2008</u>
Normal Cost	\$ 4,687
AAL Amortization	3,427
Interest on above	243
Annual Required Contribution	<u>8,357</u>
Contributions made	(2,020)
Increase in net OPEB obligation	<u>6,337</u>
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>6,337</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2008 were as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 8,357	24%	\$ 6,337

The University allocates a portion of the ARC, and the corresponding OPEB obligation, to its affiliated corporations, including the Association. For the year ended June 30, 2008, the Association's portion of the ARC was \$0.3 million. As of June 30, 2008, the Association's net OPEB obligation was \$0.3 million, of which \$0.2 million was recorded in other long-term liabilities and \$0.1 million was recorded in accounts payable and accrued expenses.

d. Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$69.2 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$69.2 million. The covered payroll (annual payroll of active employees covered by the plan) was \$345.6 million, and the ratio of the UAAL to the covered payroll was 20 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding

progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3.0 percent investment rate of return (net of administrative expenses) which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2008 was 29 years.

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. As discussed in Note 13 – Subsequent Events, the Association has entered into a lease agreement with the Louisville Arena Authority, Inc. (Arena Authority) related to the Association's use of the arena for the men's and women's basketball programs. The Association has entered into a Termination Agreement with KSFB that allows the Association to terminate the existing lease without penalty when the basketball teams move to the Arena.

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 each of the years ended June 30, 2008 and 2007 amounted to approximately \$1.2 million.

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, 2006, 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, of which \$695,000 is still outstanding (\$38,000 in other current assets and \$657,000 in other long-term assets) as of June 30, 2008. This prepayment is being amortized evenly over the life of the lease. Total lease expenses during the years ended June 30, 2008 and 2007 amounted to approximately \$88,000 and \$83,000, respectively, of which \$38,000 in each year relates to the amortization of prepaid rent. Subsequent to June 30, 2008, the Foundation purchased the building from Central Station; therefore, in future years the lease will be with a related party.

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

<u>For the year ended June 30,</u>	<u>Lease Payment Due</u>
2009	\$ 102
2010	102
2011	102
2012	102
2013	102
2014 - 2018	539
2019 - 2023	569
2024 - 2027	220
Future minimum lease payments	<u>\$ 1,838</u>

12. Commitments and Contingencies

a. Commitments

At June 30, 2008 and 2007, the Association had approximately \$593,000 and \$1,313,000, 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. Subsequent Events

a. Metro Government Mortgage Revenue Refunding and Improvement Bonds Series 2008

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

b. Louisville Arena Authority, Inc. Lease

In July 2008, the Association entered into a lease agreement with the Louisville Arena Authority, Inc. (Arena Authority). The lease has an initial term of 36 years. Annual lease payments are equal to the greater of 10 percent of gross ticket sales or a minimum lease amount of \$10,000 per game for men's basketball games; the greater of 5 percent of gross ticket sales or a minimum of \$5,000 for any other Association sponsored event; and, as payment for private suites, 12 percent of net private suite revenue.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50 percent of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25 percent of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50 percent of all rental/commission payments received in connections with the gift shop and its operations, and 50 percent of any additional merchandise revenue received from any source other than the gift shop; (c) 50 percent of all revenue received from the sale of inventory of the permanent signage inside and outside the Arena structure, excluding any signage that is part of the 10% of permanent signage reserved for the Association; (d) 33.3 percent of all revenue from the sale of inventory on all video boards outside the Arena structure, excluding any video board inventory that is part of the Association's signage.

The Association's obligations are expected to commence on or about November 1, 2010.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress by the University
For Other Postemployment Benefits
(in thousands)

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/2007	\$ -	\$ 69,179	\$ 69,179	0%	\$ 345,636	20%