

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

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

**Accountants' Report and Financial Statements  
June 30, 2010 and 2009**

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

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

**Table of Contents:**

	Page
Independent Accountants' Report and Supplementary Information .....	1
Management's Discussion and Analysis (Unaudited).....	2
Statements of Net Assets .....	10
Statements of Revenues, Expenses and Changes in Net Assets .....	11
Statements of Cash Flows .....	12
Notes to Financial Statements.....	13
Required Supplementary Information.....	32

## 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), a component unit of the University of Louisville, as of and for the years ended June 30, 2010 and 2009, 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 audits 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, 2010 and 2009, and the changes in its financial position and its 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, as 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. The accompanying supplementary information, as listed in the table of contents, 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 auditing procedures applied in the audit 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.

BKD, LLP

September 27, 2010

# 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, 2010, 2009, and 2008. 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. The Association is a member of the Big East Conference.

The Association continues to support the athletic achievements of the students by expanding and improving the facilities. The Association continued the expansion of Papa John's Cardinal Stadium (Stadium) during the fiscal year. Substantially completed in late summer 2010, the expansion adds new luxury suites, loge seats and additional concession stands and restrooms. The basketball teams anticipate moving to the downtown Arena for the 2010-2011 season, a construction project of the Louisville/Jefferson County Metro Government.

In addition to athletic achievements, the Association invested in the academic achievement and community involvement of the student athletes. In the fall of 2009, 55% of the student athletes had a GPA over 3.0, with 61% of those students having a GPA over 3.25. Additionally, one member of the woman's swim team was awarded a Fulbright scholarship. The student athletes provided approximately 4,800 hours of community service through the CardsCare program.

#### Financial Highlights

The Association's financial position at June 30, 2010 is characterized by the following:

- Total assets were \$246.4 million, an increase of \$16.4 million, or 7%, from June 30, 2009. The most significant increases were in cash and cash equivalents, which increased \$5.5 million and restricted cash, which increased \$8.6 million, due mainly to the increase in football games for the 2010 season and proceeds from pledge receipts, respectively.
- Total liabilities were \$140.8 million, an increase of \$10.2 million, or 8%, from June 30, 2009, due to a total increase in deferred revenue of \$9.1 million.
- Net assets, which represent the residual interest in assets after liabilities are deducted, were \$105.6 million, an increase of \$6.2 million, or 6%, compared to June 30, 2009.

- Operating revenues amounted to \$33.9 million. When offset by operating expenses of \$61.0 million, an operating loss of \$27.1 million resulted. The operating loss was offset by \$33.3 million of net nonoperating revenues resulting in an increase in net assets of \$6.2 million for the year ended June 30, 2010.
- Net nonoperating revenues of \$33.3 million consisted of \$27.6 million in gifts, \$3.6 million in net investment gains, and \$2.1 million of other net revenues.

With the Association's increase of \$6.2 million in net assets for the year ended June 30, 2010, assets exceed liabilities by a ratio of 1.8 to 1. The Association's most significant asset, the Stadium complex, is reflected at its historic cost of \$72.7 million less \$23.5 million in accumulated depreciation for a net capitalized value of \$49.2 million. Construction in progress related to the expansion was \$70.4 million as of June 30, 2010.

### 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, 2010, 2009, and 2008 are as follows:

<b>Condensed Statements of Net Assets</b>					
<b>June 30, 2010, 2009, and 2008</b>					
<b>(In Thousands)</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010 - 2009</b>	<b>2009 - 2008</b>
				<b>Change</b>	<b>Change</b>
<b>ASSETS</b>					
Current assets	\$ 47,496	\$ 79,022	\$ 34,526	\$ (31,526)	\$ 44,496
Long-term investments	32,482	30,052	39,597	2,430	(9,545)
Capital assets, net	128,394	83,677	60,007	44,717	23,670
Other	38,080	37,298	24,243	782	13,055
Total assets	<u>246,452</u>	<u>230,049</u>	<u>158,373</u>	<u>16,403</u>	<u>71,676</u>
<b>LIABILITIES</b>					
Current liabilities	41,897	32,178	23,848	9,719	8,330
Noncurrent liabilities	98,936	98,460	31,771	476	66,689
Total liabilities	<u>140,833</u>	<u>130,638</u>	<u>55,619</u>	<u>10,195</u>	<u>75,019</u>
<b>NET ASSETS</b>					
Invested in capital assets,	56,327	51,894	48,563	4,433	3,331
Restricted-nonexpendable	1,268	1,083	1,293	185	(210)
Restricted-expendable	38,213	23,786	24,652	14,427	(866)
Unrestricted	9,811	22,648	28,246	(12,837)	(5,598)
Total net assets	<u>\$ 105,619</u>	<u>\$ 99,411</u>	<u>\$ 102,754</u>	<u>\$ 6,208</u>	<u>\$ (3,343)</u>

## **Assets**

Current assets of \$47.5 million represent 19% of total assets. These assets mainly consist of \$24.6 million in cash and cash equivalents, \$16.8 million in deposits with bond trustees, and \$5.5 million in accounts and contributions receivable. Current assets decreased \$31.5 million, or 40%, due mainly to the decrease in deposits with bond trustees related to the expansion of the Stadium. These funds were used during the construction phase of the expansion. Additionally, the Association had an \$8.6 million decrease in accounts and contributions receivable. This decrease is due mainly to payments received on pledges related to the additional loge seats in the expansion of the Stadium.

The remaining \$198.9 million, or 81% of total assets, is classified as noncurrent. The Association's most significant long-term assets are \$128.4 million in net capital assets, \$32.1 million in investments held with the University of Louisville Foundation, Inc. (Foundation), \$19.3 million in accounts and contributions receivable, and \$16.5 million in restricted cash. Noncurrent assets increased \$47.9 million over the prior year, due mainly to increases in capital assets and restricted cash. The increase in capital assets of \$44.7 million is related to the Stadium expansion's additional construction in progress of \$46.5 million. Restricted cash increased due to the receipt of cash on pledges related to the expansion of the Stadium, which are restricted to use on the construction and debt service of the expansion.

## **Liabilities**

Current liabilities were \$41.9 million at June 30, 2010. This consists primarily of \$23.8 million in deferred revenues for advanced football and basketball ticket sales and sponsorships and \$9.8 million in accounts payable and accrued liabilities. Deferred revenue related to tickets contributed to the \$8.1 million increase in current deferred revenue, as the football team has one more home game, in addition to the new season ticket seats provided by the expansion, during fiscal year 2011. The current portion of bonds and notes payable increased due to the increase in bond payments required next year, as scheduled in the bond and note documents.

Noncurrent liabilities were \$98.9 million, or 70% of total liabilities, at June 30, 2010. The most significant noncurrent liability consists of \$74.1 million in bonds and notes payable for the Stadium. The Association also has \$10.6 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. Noncurrent liabilities remained steady when compared to the prior year.

## **Net Assets**

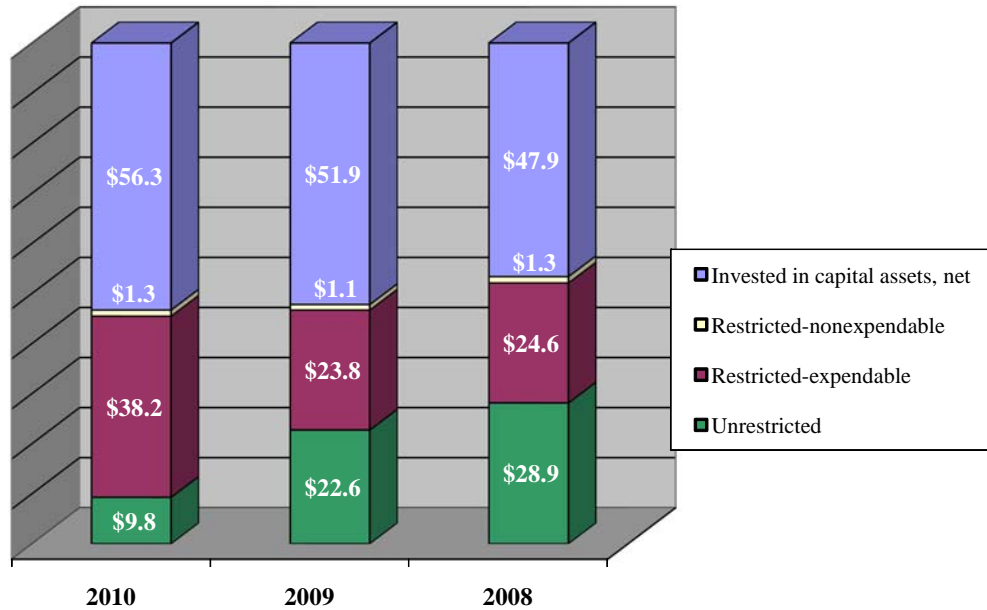
Total net assets of \$105.6 million as of June 30, 2010 are reported in the following net asset categories: invested in capital assets, net of related debt, \$56.3 million (54%); restricted nonexpendable, \$1.3 million (1%); restricted-expendable, \$38.2 million (36%); and unrestricted, \$9.8 million (9%).

Net assets invested in capital assets, net of related debt, represents primarily the net investment in the 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, debt instruments, and other contractual obligations that govern their use. When compared to June 30, 2009, restricted expendable net assets increased \$14.4 million, due mainly to the \$14.9 million increase in net assets restricted for capital projects. This increase relates to the transfer of funds received as payment on pledges related to the expansion of the Stadium.

Unrestricted net assets decreased \$12.8 million as compared to the prior year balance of \$22.6 million. This decrease is due mainly to the \$9.0 million transfer to restricted for construction projects and the \$5.5 million of deferred compensation expense for the fiscal year ended June 30, 2010.

A graphic illustration of net assets as of June 30, 2010, 2009, and 2008 is as follows:



### Fiscal Year 2009

Total assets at June 30, 2009 were \$230.0 million, an increase of \$71.6 million compared to the \$158.4 million as of June 30, 2008. The increase is due mainly to increases in deposits with bond trustees related to the Stadium expansion project. The funds were held on deposit during the construction phase of the expansion and were used during the fiscal year ended June 30, 2010.

Liabilities at June 30, 2009 were \$130.6 million as compared to \$55.6 million as of June 30, 2008. The increase of \$75.0 million is due mainly to the issuance of \$84.0 million in new bonds to fund the expansion of the Stadium. A portion of the bond issue was used to refund the \$11.4 million in outstanding bonds at June 30, 2008.

Net assets at June 30, 2009 were \$99.4 million, a decrease of \$3.3 million from the June 30, 2008 net assets of \$102.7 million. This decrease is due mainly to the \$5.6 million decrease in unrestricted net assets, which were impacted by the \$7.2 million decrease in market value of unrestricted investments in 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, 2010, 2009 and 2008 are shown on the following page:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**Years ended June 30, 2010, 2009, and 2008**  
(In Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 - 2009</u> <u>Change</u>	<u>2009 - 2008</u> <u>Change</u>
<b>OPERATING REVENUES</b>					
Sports	\$ 27,383	\$ 30,318	\$ 24,955	\$ (2,935)	\$ 5,363
Other operating revenues	6,523	7,420	7,565	(897)	(145)
Total operating revenues	<u>33,906</u>	<u>37,738</u>	<u>32,520</u>	<u>(3,832)</u>	<u>5,218</u>
<b>OPERATING EXPENSES</b>					
Sports	35,549	32,211	30,164	3,338	2,047
Other operating expenses	23,371	21,646	20,782	1,725	864
Depreciation	2,101	2,103	2,076	(2)	27
Total operating expenses	<u>61,021</u>	<u>55,960</u>	<u>53,022</u>	<u>5,061</u>	<u>2,938</u>
Operating loss	<u>(27,115)</u>	<u>(18,222)</u>	<u>(20,502)</u>	<u>(8,893)</u>	<u>2,280</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	27,567	18,937	36,596	8,630	(17,659)
Net realized and unrealized gain/ (loss) on investments	1,868	(8,276)	(1,068)	10,144	(7,208)
Investment income (net of investment expense)	1,712	1,881	613	(169)	1,268
Other nonoperating expenses	(1,337)	(1,795)	(626)	458	(1,169)
Net assets transferred from/(to) related entities	<u>3,513</u>	<u>4,132</u>	<u>(998)</u>	<u>(619)</u>	<u>5,130</u>
Net nonoperating revenues	<u>33,323</u>	<u>14,879</u>	<u>34,517</u>	<u>18,444</u>	<u>(19,638)</u>
Increase/(decrease) in net assets	6,208	(3,343)	14,015	9,551	(17,358)
<b>NET ASSETS</b>					
Net assets-beginning of year	<u>99,411</u>	<u>102,754</u>	<u>88,739</u>	<u>(3,343)</u>	<u>14,015</u>
Net assets-end of year	<u>\$ 105,619</u>	<u>\$ 99,411</u>	<u>\$ 102,754</u>	<u>\$ 6,208</u>	<u>\$ (3,343)</u>

### Operating Revenues

Total operating revenues were \$33.9 million and \$37.7 million for the years ended June 30, 2010 and 2009, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised \$27.4 million, or 81% of total operating revenues for the year. Other operating revenues amounting to \$6.5 million and \$7.4 million for the years ended June 30, 2010 and 2009, respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts.

The \$3.8 million decrease in operating revenue results mainly from an decrease in ticket revenue for football, as the Association had two more home games in the 2008 season as compared to the 2009 season. Total football revenue decreased \$3.2 million, or 20% as compared to the prior year. Offsetting this decrease, men's basketball revenue increased \$1.0 million, or 8%, over the prior year due mainly to increased ticket revenue resulting from more home games and higher ticket prices.

### Operating Expenses

Total operating expenses were \$61.0 million and \$55.9 million for the years ended June 30, 2010 and 2009, respectively. For the year ended June 30, 2010, expenses consist mainly of \$35.5 million in direct sports-related expenses. The remaining \$25.5 million in operating expenses consist mainly of

marketing and development of \$7.3 million; support services of \$5.6 million; and administrative expenses of \$4.5 million. The depreciation expense of \$2.1 million is associated primarily with the Stadium.

Total operating expenses increased by \$5.1 million, or 9%, in the current year due mainly to expenses related to the sports programs. Total football expenses increased \$2.6 million as compared to the prior year, due mainly to increased contractual expenses associated with the change in coaching staff.

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

The Association's loss from operations amounted to \$27.1 million and \$18.2 million for the years ended June 30, 2010 and 2009, respectively. During the fiscal year ended June 30, 2010, the operating loss was offset by the \$33.3 million in nonoperating revenues leaving an increase in net assets of \$6.2 million. This is an increase of \$9.5 million as compared to the \$3.3 million decrease in net assets realized during the fiscal year ended June 30, 2009.

The \$18.4 million increase in nonoperating revenues is due mainly to the \$10.1 million increase in net realized and unrealized gains and the \$8.6 million increase in gifts. The increase in net realized and unrealized losses is due mainly to the impact of a recovering economic situation on the assets held by the Foundation. The increase in capital gifts is due mainly to the additional \$5.5 million in pledges received for the expansion of the Stadium and the \$2.0 million in pledges received for the construction of a boathouse for the rowing team.

### **Fiscal Year 2009**

The Association had a decrease in net assets for the year ended June 30, 2009 of \$3.3 million, which was a decrease from the \$14.0 million increase for the fiscal year ended June 30, 2008. Operating revenues increased \$5.2 million due mainly to an increase in ticket revenue for football, as the Association had two more home games in the 2008 season as compared to the 2007 season. At the same time, operating expenses increased by \$2.9 million, or 6%, due mainly to increases in expenses related to the sports programs, including an increase of \$1.2 million in women's sport expenses.

The \$19.6 million decrease in nonoperating revenues is due mainly to the \$17.7 million decrease in total gifts. This decrease is due mainly to the recognition in fiscal year 2008 of gifts associated with seating in the Stadium expansion and capital gifts for the construction of the expansion.

### **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, 2010, 2009 and 2008 is shown on the following page:

**Condensed Statements of Cash Flows**  
**Years ended June 30, 2010, 2009, and 2008**  
(In Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 - 2009</u> <u>Change</u>	<u>2009 - 2008</u> <u>Change</u>
Cash (used)/provided by:					
Operating activities	\$ (18,918)	\$ (17,570)	\$ (15,102)	\$ (1,348)	\$ (2,468)
Noncapital financing activities	24,649	17,223	15,870	7,426	1,353
Capital financing activities	7,184	(2,983)	1,688	10,167	(4,671)
Investing activities	1,187	3,823	(1,220)	(2,636)	5,043
Net increase in cash and cash equivalents	<u>14,102</u>	<u>493</u>	<u>1,236</u>	<u>13,609</u>	<u>(743)</u>
Cash and cash equivalents, beginning of year	<u>26,965</u>	<u>26,472</u>	<u>25,236</u>	<u>493</u>	<u>1,236</u>
Cash and cash equivalents, end of year	<u>\$ 41,067</u>	<u>\$ 26,965</u>	<u>\$ 26,472</u>	<u>\$ 14,102</u>	<u>\$ 493</u>

### Operating Activities

The Association's cash and cash equivalents increased by \$14.1 million during the year. The Association experienced a net outflow of \$18.9 million in cash paid for operations, an increase of \$1.3 million, or 8% compared to the fiscal year ended June 30, 2009. Cash provided by ticket sales increased \$4.7 million, due mainly to increased receipts for the 2010 football season, which includes one additional home game as compared to the 2009 season. This was offset by the increase in payments for employee benefits of \$5.0 million, related mainly to an increase in coaches' contractual benefits.

### Other Activities

Cash provided by noncapital and related financing activities of \$24.6 million offset the cash used by operating activities. These cash flows consist primarily of \$21.2 million in gifts received to support the sports programs. Additionally, the Association received \$3.4 million from related entities. During the current fiscal year, the Association transferred approximately \$1.8 million to the University to fund bond payments that relate to Association projects. This was offset by the approximately \$4.1 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 \$12.8 million in cash related to pledges and gifts for capital construction projects. Deposits with bond trustee of \$42.5 million and proceeds from the issuance of a note payable of \$2.4 million primarily funded the \$46.1 million of purchases of capital assets.

Cash provided by investing activities decreased by \$2.6 million, due mainly to the \$1.1 million decrease in cash received from investment income. The decrease in cash received from investment income is related to the use of the majority of funds invested with bond trustees to make construction payments, thereby decreasing the balance of funds earning investment income.

### Fiscal Year 2009

The Association's cash and cash equivalents increased by \$0.5 million during the year ended June 30, 2009. As compared to the fiscal year ended June 30, 2008, the Association used \$2.5 million more cash for operations and \$4.7 million more for capital financing activities, while investing activities provided \$5.0 million more than in fiscal year 2008.

Cash provided by ticket sales decreased \$3.3 million, due mainly to increased receipts in the prior year for the 2009 football season, which included two additional home games as compared to the 2008 football season. Additionally, payments to employees increased \$2.5 million, related mainly to increase in coaches' salaries and bonuses.

Cash used by capital financing relates mainly to the issuance of the bonds for the Stadium expansion project. The issuance provided \$84.0 million in bond proceeds, which, as of June 30, 2009, \$17.5 million and \$11.4 million had been used for construction on the project and repayment of prior outstanding debt, respectively. Additional principal payments and bond issuances costs were \$3.4 and \$1.0 million, respectively. Cash provided by investing activities increased by \$5.0 million, due mainly to the \$2.8 million of investment income. This increased investment income is a result of the higher deposit with bond trustee balances.

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

The Association's budgetary goals for the current year include monitoring the expanded football stadium and basketball arena. With the significant changes to the facilities for the two largest sports programs, the 2011 fiscal year has more unknown factors than any previous year. The Association focused on preparing a conservative and realistic budget.

The Association's Board of Directors approved a balanced operating budget for the 2011 fiscal year. The balanced budget calls for \$64.4 million in revenues and expenses, a 23% increase over the original 2010 fiscal year budget of \$52.4 million. The budget includes an increase in men's basketball revenue of 40%, with an increase in expenses of 17%. Expenses associated with the downtown arena are projected at \$4.3 million, an increase of 203% over the prior year. This will be the first year in the new downtown arena, as the basketball teams move from Freedom Hall. Football revenue is expected to increase 45% due to more home games in the 2010 season and additional seating in the expansion. The other main source of revenue, annual Cardinal Athletic Fund donations, is projected to increase \$1.9 million to \$12.7 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, 2010 and 2009**  
**(In Thousands)**

	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 24,588	\$ 19,090
Deposits with bond trustee	16,828	45,361
Accounts and contributions receivable, net	5,537	14,090
Due from University of Louisville	245	-
Other assets	298	481
Total current assets	47,496	79,022
Noncurrent Assets:		
Restricted cash	16,479	7,875
Deposit with bond trustee	1,468	15,466
Accounts and contributions receivable, net	19,337	13,090
Investments held with University of Louisville Foundation, Inc.	32,086	29,656
Other long-term investments	396	396
Other long-term assets	796	867
Capital assets, net	128,394	83,677
Total noncurrent assets	198,956	151,027
Total assets	246,452	230,049
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	9,805	9,508
Deferred compensation and wages payable	1,647	3,752
Deferred revenue	23,806	15,728
Note payable to University of Louisville Foundation, Inc.	500	500
Bonds and note payable	6,139	2,690
Total current liabilities	41,897	32,178
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	9,976	6,644
Note payable to University of Louisville Foundation, Inc.	1,705	2,205
Deferred revenue	3,329	2,332
Other long term liabilities	940	554
Bonds and note payable	74,107	77,846
Total noncurrent liabilities	98,936	98,460
Total liabilities	140,833	130,638
<b>NET ASSETS</b>		
Invested in capital assets, net	56,327	51,894
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,268	1,083
Expendable		
Scholarships and fellowships	633	622
Institutional support	1,913	1,558
Capital projects	24,801	9,881
Debt service	10,388	11,710
Other	478	15
Unrestricted	9,811	22,648
Total net assets	\$ 105,619	\$ 99,411

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, 2010 and 2009**  
**(In Thousands)**

	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>		
Sports:		
Basketball	\$ 13,898	\$ 12,883
Football	12,882	16,131
Other sports	603	1,304
Total sports	<u>27,383</u>	<u>30,318</u>
Papa John's Cardinal Stadium	511	807
Marketing & development	3,638	4,430
Administration	1,287	1,179
Support services	366	305
Other operating revenues	721	699
Total operating revenues	<u>33,906</u>	<u>37,738</u>
<b>OPERATING EXPENSES</b>		
Sports:		
Basketball	7,891	7,543
Football	12,582	9,943
Other sports	15,076	14,725
Total sports	<u>35,549</u>	<u>32,211</u>
Papa John's Cardinal Stadium	742	870
Marketing & development	7,290	5,317
Administration	4,529	4,452
Support services	5,600	4,946
Game management/facilities operations	1,795	1,779
Depreciation	2,101	2,103
Other operating expenses	3,415	4,282
Total operating expenses	<u>61,021</u>	<u>55,960</u>
Operating loss	<u>(27,115)</u>	<u>(18,222)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	16,635	16,315
Investment income (net of investment expense)	1,712	1,881
Net realized and unrealized gain/(loss) on investments	1,868	(8,276)
Interest on capital related debt	(1,402)	(1,771)
Other nonoperating revenues/(expenses)	65	(24)
Net nonoperating revenues	<u>18,878</u>	<u>8,125</u>
Capital gifts	10,932	2,622
Transfers from related entities	3,513	4,132
Total other revenues	<u>33,323</u>	<u>14,879</u>
Increase/(decrease) in net assets	6,208	(3,343)
<b>NET ASSETS</b>		
Net assets-beginning of year	99,411	102,754
Net assets-end of year	<u>\$ 105,619</u>	<u>\$ 99,411</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, 2010 and 2009**  
(In Thousands)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Ticket sales	\$ 20,810	\$ 16,071
NCAA distributions	5,052	5,035
Payments to suppliers	(19,295)	(19,467)
Payments to employees	(20,226)	(19,134)
Payments for utilities	(130)	(158)
Payments for benefits	(8,669)	(3,709)
Payments for scholarships and fellowships	(9,653)	(9,015)
Other athletic program receipts, net	13,193	12,807
Net cash used by operating activities	<u>(18,918)</u>	<u>(17,570)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Gifts	21,237	14,853
Transfers from related entities	3,421	2,411
Other payments	(9)	(41)
Net cash provided by noncapital and related financing activities	<u>24,649</u>	<u>17,223</u>
<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	12,783	6,442
Proceeds from issuance of bonds and notes payable	2,400	84,006
Payments of issuance costs	-	(1,008)
Purchases of capital assets	(46,129)	(17,540)
Principal paid on bonds payable	(2,545)	(14,830)
Interest paid on bonds payable	(1,354)	(1,771)
Deposits with bond trustee	42,529	(57,782)
Net cash provided/(used) by capital financing activities	<u>7,184</u>	<u>(2,983)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	5,202	7,677
Purchase of investments	(5,700)	(6,658)
Interest on investments	1,685	2,804
Net cash provided by investing activities	<u>1,187</u>	<u>3,823</u>
Net increase in cash and cash equivalents	14,102	493
Cash and cash equivalents - beginning of year	26,965	26,472
Cash and cash equivalents - end of year	<u>\$ 41,067</u>	<u>\$ 26,965</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (27,115)	\$ (18,222)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	2,101	2,103
Change in assets and liabilities:		
Accounts and contributions receivable, net	118	(512)
Other assets	184	(235)
Accounts payable and accrued liabilities	(321)	703
Deferred revenue	4,566	(3,577)
Deferred compensation and wages payable	1,162	1,816
Other long-term liabilities	387	354
Net cash used by operating activities	<u>\$ (18,918)</u>	<u>\$ (17,570)</u>
Transfer of equipment from the University of Louisville	<u>\$ 92</u>	<u>\$ 1,721</u>
Capital asset additions in accounts payable	<u>\$ 7,109</u>	<u>\$ 6,512</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, 2010 and 2009**

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://louisville.edu/finance/controller/finst>

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, 2010 and 2009, deposits with bond trustees consist of cash and investments in governmental securities and guaranteed investment contracts of \$18.3 million and \$60.8 million, respectively, for the Stadium Project Revenue Bonds. Investments in governmental securities are stated at market value. Guaranteed investment contracts are stated at cost plus accrued interest, which approximates market value.

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. In July 2010, the Commonwealth of Kentucky will adopt the Uniform Prudent Management of Institutional Funds Act, which also allows the total return method of investment management.

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 and the Association's statement of net assets.

f. Capital Assets

Capital assets are stated principally at cost, if purchased, or at 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.

The Association capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing.

Total interest capitalized was (in thousands):

	<u>2010</u>	<u>2009</u>
Total interest expense incurred on borrowings for project	\$ 3,161	\$ 2,946
Interest income from investment of proceeds of borrowings for project	(1,358)	(1,641)
Net interest cost capitalized	<u>\$ 1,803</u>	<u>\$ 1,305</u>
Interest capitalized	\$ 1,803	\$ 1,305
Interest charged to expenses	1,402	1,771
Total interest incurred	<u>\$ 3,205</u>	<u>\$ 3,076</u>

g. Compensation Expenses

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

h. Compensated Absences

Association policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation or sick benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

i. 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 \$27.1 million and \$18.1 million at June 30, 2010 and 2009, respectively. Such deferred revenues are recognized over the term of the related athletic activities.

j. 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.

k. Net Bond Premium

The Association amortizes the net bond premium using the effective interest method over the life of the bond.

l. 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 net assets.

m. 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.

n. 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.

o. Reclassifications

Certain 2009 amounts have been reclassified to conform with the 2010 presentation. These reclassifications had no effect on the change in net assets.

## 2. Cash and Investments

### a. Summary of Carrying Values

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

	<u>2010</u>	<u>2009</u>
Deposits	\$ 41,067	\$ 26,965
Investments		
U.S. Treasury obligations	7,486	7,843
Guaranteed investment contracts	10,810	52,984
Investments held with the University of Louisville Foundation, Inc.	32,086	29,656
Certificates of deposit	100	100
Annuities	296	296
	<u>\$ 91,845</u>	<u>\$ 117,844</u>
Included in the following statement of net assets captions:		
Cash and cash equivalents	\$ 24,588	\$ 19,090
Deposit with bond trustee-current	16,828	45,361
Restricted cash and cash equivalents	16,479	7,875
Deposit with bond trustee-noncurrent	1,468	15,466
Investments held with the University of Louisville Foundation, Inc.	32,086	29,656
Other long-term investments	396	396
	<u>\$ 91,845</u>	<u>\$ 117,844</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, 2028.

As of June 30, 2010 and 2009, the Association had the following investments subject to interest rate risk (in thousands):

June 30, 2010					
Type	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 7,486	\$ 7,486			
Guaranteed investment contracts	10,810	6,109	\$ 2,212	\$ 595	\$ 1,894
Certificates of deposit	100	100	-	-	-
	<u>\$ 18,396</u>	<u>\$ 13,695</u>	<u>\$ 2,212</u>	<u>\$ 595</u>	<u>\$ 1,894</u>

June 30, 2009					
Type	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 7,843	\$ 7,843			
Guaranteed investment contracts	52,984	48,582	\$ 1,231	\$ 831	\$ 2,340
Certificates of deposit	100	100	-	-	-
	<u>\$ 60,927</u>	<u>\$ 56,525</u>	<u>\$ 1,231</u>	<u>\$ 831</u>	<u>\$ 2,340</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, 2010, the \$32.1 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, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Investment in partnerships	54%	50%
Mutual funds	12%	14%
Marketable alternatives	19%	15%
Preferred and common stock	10%	14%
Corporate bonds	4%	4%
U.S. government securities	0%	2%
Certificates of deposit	1%	1%
	<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, 2010 or 2009.

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, 2010 and 2009, 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, 2010 and 2009, the Foundation held funds of the Association of approximately \$32.1 million and \$29.6 million, respectively, for investment purposes.

The Foundation is the guarantor for the Association's Louisville/Jefferson County Metro Government Mortgage Revenue Refunding and Improvement Bonds, Series 2008A and Series 2008B. In exchange for this guarantee, the Association pays to the Foundation a credit enhancement fee at each interest payment date.

c. Debt with Related Entities

As of June 30, 2010 and 2009, the Association has noninterest bearing debt with no specific repayment terms 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, noninterest 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 receivable 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, 2010 and 2009, the Association repaid approximately \$0.5 million. The outstanding balance was approximately \$2.2 million and \$2.7 million as of June 30, 2010 and 2009, respectively, of which approximately \$0.5 million was shown as current as of June 30, 2010 and 2009.

In July 2001, the Association received a \$347,000 unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball Offices. The outstanding loan balance is approximately \$316,000 as of June 30, 2010 and 2009.

d. Transfers with Related Entities

The University, during its annual budgetary process, agrees to transfer funds to the Association to assist with expenses related to retention and gender issues. The University transferred \$2.2 million and \$2.1 million for the fiscal years ended June 30, 2010 and 2009, respectively. 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, 2010 and 2009.

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 \$1.8 million and \$1.9 million related to capital projects during the fiscal years ended June 30, 2010 and 2009, respectively. During the fiscal years ended June 30, 2010 and 2009, the University transferred to the Association \$0.9 million and \$3.0 million, respectively, in pledge receipts and other capital project funding related to capital projects that are financed by the Association, and as such, are recorded as assets of the Association.

In July 2005, 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 to the University for each of the years ended June 30, 2010 and 2009 related to this agreement.

Additionally, the Association received \$0.8 million and transferred \$0.4 million to the University for the years ended June 30, 2010 and 2009, respectively, related to other transactions.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2010 and 2009 are as follows and on the following page (in thousands):

	<b>2010</b>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 729		\$ 729
Contributions receivable	27,094	\$ (1,422)	25,672
Total	<u>\$ 27,823</u>	<u>\$ (1,422)</u>	26,401
Less: Discount			(1,527)
Current portion			<u>5,537</u>
Non current portion			<u>\$ 19,337</u>

	<b>2009</b>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 1,092		\$ 1,092
Contributions receivable	30,896	\$ (2,796)	28,100
Total	<u>\$ 31,988</u>	<u>\$ (2,796)</u>	29,192
Less: Discount			(2,012)
Current portion			<u>14,090</u>
Non current portion			<u>\$ 13,090</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 0.2% to 5.8%.

Contributions receivable as of June 30, 2010 and 2009 are due to be received as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 5,290	\$ 14,310
One to three years	5,583	5,620
Greater than three years	16,221	10,966
Subtotal	27,094	30,896
Less: discount	(1,527)	(2,012)
Less: allowance	(1,422)	(2,796)
Net contributions receivable	<u>\$ 24,145</u>	<u>\$ 26,088</u>

5. Capital Assets, Net

Capital assets as of June 30, 2010 and 2009 are as follows (in thousands):

	<b>2010</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Transfers</b>	
<b>Cost-Nondepreciable</b>					
Land	\$ 6,045			\$ (934)	\$ 5,111
Construction in progress	22,916	\$ 46,474		1,026	70,416
Subtotal	<u>28,961</u>	<u>46,474</u>	<u>\$ -</u>	<u>92</u>	<u>75,527</u>
<b>Cost-Depreciable</b>					
Buildings	73,709	-	-	-	73,709
Land improvements	1,364	-	-	-	1,364
Equipment	1,175	252	-	-	1,427
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	<u>77,547</u>	<u>252</u>	<u>-</u>	<u>-</u>	<u>77,799</u>
Total capital assets-cost	<u>106,508</u>	<u>46,726</u>	<u>-</u>	<u>92</u>	<u>153,326</u>
<b>Accumulated depreciation</b>					
Buildings	21,734	1,841	-	-	23,575
Land improvements	79	35	-	-	114
Equipment	642	167	-	-	809
Leasehold improvements	376	58	-	-	434
Subtotal	<u>22,831</u>	<u>2,101</u>	<u>-</u>	<u>-</u>	<u>24,932</u>
Capital assets, net	<u>\$ 83,677</u>	<u>\$ 44,625</u>	<u>\$ -</u>	<u>\$ 92</u>	<u>\$ 128,394</u>

	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ments</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Cost-Nondepreciable</b>					
Land	\$ 3,500	\$ 2,545			\$ 6,045
Construction in progress	-	21,395		\$ 1,521	22,916
Subtotal	<u>3,500</u>	<u>23,940</u>	<u>\$ -</u>	<u>1,521</u>	<u>28,961</u>
<b>Cost-Depreciable</b>					
Buildings	73,709	-	-	-	73,709
Land improvements	1,164	-	-	200	1,364
Equipment	1,063	112	-	-	1,175
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	<u>77,235</u>	<u>112</u>	<u>-</u>	<u>200</u>	<u>77,547</u>
Total capital assets-cost	<u>80,735</u>	<u>24,052</u>	<u>-</u>	<u>1,721</u>	<u>106,508</u>
<b>Accumulated depreciation</b>					
Buildings	19,892	1,842	-	-	21,734
Land improvements	45	34	-	-	79
Equipment	473	169	-	-	642
Leasehold improvements	318	58	-	-	376
Subtotal	<u>20,728</u>	<u>2,103</u>	<u>-</u>	<u>-</u>	<u>22,831</u>
Capital assets, net	<u>\$ 60,007</u>	<u>\$ 21,949</u>	<u>\$ -</u>	<u>\$ 1,721</u>	<u>\$ 83,677</u>

## 6. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2010 and 2009 are summarized as follows (in thousands):

	<b>2010</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008A Interest rates of 3.3% to 5.0% Final maturity in 2018	\$ 38,610		\$ (1,010)	\$ 37,600	\$ 4,125	\$ 33,475
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.0% to 4.8% Final maturity in 2028	41,285		(1,535)	39,750	1,580	38,170
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	-	\$ 2,400	-	2,400	297	2,103
Total bonds payable	79,895	2,400	(2,545)	79,750	6,002	73,748
Plus unamortized net premium	641	-	(145)	496	137	359
Bonds payable, net	<u>\$ 80,536</u>	<u>\$ 2,400</u>	<u>\$ (2,690)</u>	<u>\$ 80,246</u>	<u>\$ 6,139</u>	<u>\$ 74,107</u>
	<b>2009</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retire- ment</b>	<b>Ending Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>
County of Jefferson, Kentucky Governmental Project Lease Revenue Bonds, Series 1997	\$ 11,445		\$ (11,445)	\$ -		
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008A Interest rates of 3.3% to 5.0% Final maturity in 2018	-	\$ 39,775	(1,165)	38,610	\$ 1,010	\$ 37,600
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.0% to 4.8% Final maturity in 2028	-	43,505	(2,220)	41,285	1,535	39,750
Total bonds payable	11,445	83,280	(14,830)	79,895	2,545	77,350
Plus unamortized net premium	-	726	(85)	641	145	496
Bonds payable, net	<u>\$ 11,445</u>	<u>\$ 84,006</u>	<u>\$ (14,915)</u>	<u>\$ 80,536</u>	<u>\$ 2,690</u>	<u>\$ 77,846</u>

Principal and interest payments on bonds 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>
2011	\$ 6,002	\$ 3,213	\$ 9,215
2012	6,197	3,015	9,212
2013	6,417	2,800	9,217
2014	6,652	2,570	9,222
2015	6,909	2,315	9,224
2016 - 2020	26,358	7,384	33,742
2021 - 2025	12,380	3,842	16,222
2026 - 2028	8,835	877	9,712
Total	<u>\$ 79,750</u>	<u>\$ 26,016</u>	<u>\$ 105,766</u>

**Louisville/Jefferson County Metro Government Mortgage Revenue Refunding and Improvement Bonds, Series 2008A and Series 2008B**

In July 2008, the Louisville Metro Government issued \$39.8 million of Mortgage Revenue Bonds 2008 Series A and \$43.5 million of Mortgage Revenue Bonds 2008 Series B (Mortgage Revenue Bonds) at a combined net interest cost of 4.2 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 were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project. The bonds are secured by a mortgage on the University of Louisville Papa John's Cardinal Stadium and associated training and related facilities, and pledged Adjusted Gross Revenues, as defined by the official statement.

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

**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 required the Association to pay the trustee for all monetary obligations of the bonds. The County entered into a lease agreement with the University and agreed to make lease payments to the Trustee of up to \$2 million annually if the Association was unable to pay the minimum debt requirements, as defined in the lease agreement. The County also entered into a Sublease and Assignment Agreement with the City of Louisville (the City) whereby the City made sublease rental payments to the County of up to 50% of the amounts paid as lease rental payments by the County. In September 2008, these bonds were retired, which resulted in a loss of approximately \$114,000.

## 7. Other Liabilities

Other liabilities as of June 30, 2010 and 2009 are summarized as follows (in thousands):

	<b>2010</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	10,396	\$ 6,096	\$ (4,869)	11,623	\$ 1,647	9,976
Note payable to University of Louisville Foundation, Inc.	2,705	-	(500)	2,205	500	1,705
Deferred revenue	18,060	24,545	(15,470)	27,135	23,806	3,329
Other long-term liabilities	659	510	(74)	1,095	155	940
Total	<u>\$ 40,699</u>	<u>\$ 31,151</u>	<u>\$ (20,913)</u>	<u>\$ 50,937</u>	<u>\$ 26,108</u>	<u>\$ 24,829</u>
	<b>2009</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	8,824	\$ 2,397	\$ (825)	10,396	\$ 3,752	6,644
Note payable to University of Louisville Foundation, Inc.	3,205	-	(500)	2,705	500	2,205
Deferred revenue	21,632	15,546	(19,118)	18,060	15,728	2,332
Other long-term liabilities	302	438	(81)	659	105	554
Total	<u>\$ 42,842</u>	<u>\$ 18,381</u>	<u>\$ (20,524)</u>	<u>\$ 40,699</u>	<u>\$ 20,085</u>	<u>\$ 20,614</u>

Other long-term liabilities as of June 30, 2010 and 2009, consist of the Association's portion of other postemployment benefits, as discussed in Note 11 – Postemployment Healthcare Benefits. The current portion is included in accounts payable and accrued liabilities in the statements of net assets as of June 30, 2010 and 2009.

## 8. Pollution Remediation Obligations

Effective July 1, 2008, the Association changed its method of accounting for pollution remediation obligations (PRO) in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. As of July 1, 2008, the Association had no PRO; accordingly, no adjustment was made to beginning net assets. In March 2009, the Association purchased property with known environmental issues and assumed responsibility for remediation, including neutralization, containment, removal and disposal of ground pollutants. The Association estimated the current value of remediation costs to be \$1.1 million. The PRO is included in accounts payable and accrued liabilities and capital projects in the statement of net assets at June 30, 2009. The Association had no outstanding PRO as of June 30, 2010.

9. Expenses

Operating expenses by natural classification for the years ended June 30, 2010 and 2009 were approximately (in thousands):

	<u>2010</u>	<u>2009</u>
Salaries and wages	\$ 20,226	\$ 19,134
Employee benefits	10,301	6,240
Supplies and services	18,606	19,305
Utilities	134	163
Scholarships and fellowships	9,653	9,015
Depreciation	2,101	2,103
	<u>\$ 61,021</u>	<u>\$ 55,960</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 \$1.5 million and \$1.0 million during the years ended June 30, 2010 and 2009, respectively.

11. 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 years ended June 30, 2010 and 2009, the University contributed approximately \$0.8 million and \$1.0 million, approximately 53 percent and 59 percent of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately \$0.7 million for each of the years ended June 30, 2010 and 2009, approximately 47 percent and 41 percent of total premiums, respectively, through their required monthly contributions according to the following schedules:

	<u>2010</u>					
	<u>PPO</u>	<u>Cardinal Care Plan</u>	<u>EPO</u>	<u>PCA High</u>	<u>PCA Low</u>	<u>Out of Area</u>
Employee	\$ 337	\$ 364	\$ 375	\$ 236	\$ 171	\$ 354
Employee and Spouse	\$ 679	\$ 738	\$ 759	\$ 514	\$ 393	\$ 685

**2009**

	<u>PPO</u>	<u>Cardinal Care Plan</u>	<u>EPO</u>	<u>HRA High</u>	<u>HRA Low</u>	<u>Out of Area</u>
Employee	\$ 317	N/A	\$ 355	\$ 216	\$ 151	\$ 334
Employee and Spouse	\$ 659	N/A	\$ 739	\$ 494	\$ 373	\$ 665

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For years ended June 30, 2010 and 2009, the University contributed \$1.1 million and \$1.0 million, respectively, 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):

	<b>2010</b>	<b>2009</b>
Normal Cost	\$ 5,429	\$ 5,079
AAL Amortization	4,556	3,958
Annual Required Contribution (ARC)	9,985	9,037
Interest on above	943	577
Adjustment to ARC	(1,130)	(532)
OPEB Liability Loss	4,825	4,393
Annual OPEB Cost (AOC)	14,623	13,475
Contributions made	(1,916)	(2,056)
Increase in net OPEB obligation	12,707	11,419
Net OPEB obligation - beginning of year	17,756	6,337
Net OPEB obligation - end of year	<u>\$ 30,463</u>	<u>\$ 17,756</u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 14,623	13%	\$ 30,463
2009	13,475	15%	17,756
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 years ended June 30, 2010 and 2009, the Association's portion of the AOC was \$0.5 million and \$0.4 million, respectively. The Association's net OPEB obligation was \$1.1 million and \$0.7 million, of which \$0.9 million and \$0.6 million was recorded in other long-term liabilities and \$0.2 million and \$0.1 million was recorded in accounts payable and accrued expenses as of June 30, 2010 and 2009, respectively.

d. Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$88.8 million and \$78.5 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$88.8 million and \$78.5 million as of June 30, 2010 and 2009, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$378.1 million and \$358.7 million, and the ratio of the UAAL to the covered payroll was 23 percent and 22 percent, for the years ended June 30, 2010 and 2009, respectively.

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, 2009, 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 9.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after 9 years. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2010 was 27 years.

12. Leases

a. Kentucky State Fair Board

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 Section c., Louisville Arena Authority, Inc., 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 the years ended June 30, 2010 and 2009 amounted to approximately \$1.5 million and \$1.4 million, 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.

b. Central Station, LLC

The Association has 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 started at approximately \$47,000, and are subject to increases based on increases in the CPI. Total lease expenses during the years ended June 30, 2010 and 2009 amounted to approximately \$79,000 and \$77,000.

In July 2008, AAF-Louisville, LLC, whose sole member is the Foundation, purchased the building from Central Station; therefore, the lease is now with a related party. No changes were made to the provisions of the lease agreement as a result of the purchase.

c. Louisville Arena Authority, Inc.

In July 2008, the Association entered into a lease agreement with the 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 connection 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.

d. Future Minimum Lease Payments

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

<u>For the year ended June 30,</u>	<u>Lease Payment Due</u>
2011	\$ 363
2012	363
2013	363
2014	363
2015	363
2016 - 2020	1,816
2021 - 2025	1,816
2026 - 2030	1,523
2031 - 2035	1,425
2036 - 2040	1,425
2041 - 2044	1,140
Future minimum lease payments	<u>\$ 10,960</u>

13. Commitments and Contingencies

a. Commitments

At June 30, 2010 and 2009, the Association had approximately \$2.6 million and \$3.3 million, 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.

c. Current Economic Conditions

The current protracted economic decline continues to present not-for profit organizations with difficult circumstance and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets. The financial statements have been prepared using values and information currently available to the Association.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Association's ability to maintain sufficient liquidity.

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

<b>Actuarial Value Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a) / c)</b>
7/1/2009	\$ -	\$ 88,808	\$ 88,808	0%	\$ 378,059	23%
7/1/2008	-	78,455	78,455	0%	358,680	22%
7/1/2007	-	69,179	69,179	0%	345,636	20%