

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

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

**Accountants' Report and Financial Statements  
June 30, 2011 and 2010**

**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), a component unit of the University of Louisville, as of and for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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 and post-employment benefit information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

September 28, 2011

# 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, 2011, 2010, and 2009. 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 moved into the expansion of Papa John's Cardinal Stadium (Stadium) during the fiscal year. Substantially completed in late summer 2010, the expansion added new luxury suites, loge seats and additional concession stands and restrooms. The basketball teams also moved to the downtown Arena for the 2010-2011 season, a construction project of the Louisville/Jefferson County Metro Government.

The Association continues to invest in the academic achievement and community involvement of the student athletes. In total, 386 student athletes, including managers and trainers, had a semester GPA of over 3.0 in Fall 2010. Of these students, 72% had a GPA higher than 3.25 for the semester.

#### Financial Highlights

The Association's financial position at June 30, 2011 is characterized by the following:

- Total assets were \$251.9 million, an increase of \$5.5 million, or 2%, from June 30, 2010. The most significant increases were in cash and cash equivalents, which increased \$10.3 million, due mainly to the revenue from the expanded and new facilities for the football and basketball teams.
- Total liabilities were \$134.7 million, a decrease of \$6.1 million, or 4%, from June 30, 2010, due mainly to scheduled bond payments of \$6.0 million.
- Net assets, which represent the residual interest in assets after liabilities are deducted, were \$117.2 million, an increase of \$11.6 million, or 11%, compared to June 30, 2010.

- Operating revenues amounted to \$44.3 million. When offset by operating expenses of \$67.0 million, an operating loss of \$22.7 million resulted. The operating loss was offset by \$34.3 million of net nonoperating revenues resulting in an increase in net assets of \$11.6 million for the year ended June 30, 2011.
- Net nonoperating revenues of \$34.3 million consisted of \$30.9 million in gifts, \$4.4 million in net investment gains, and \$1.0 million of other net expenses.

With the Association's increase of \$11.6 million in net assets for the year ended June 30, 2011, assets exceed liabilities by a ratio of 1.9 to 1. The Association's most significant asset, the Stadium complex, is reflected at its historic cost of \$151.0 million less \$26.9 million in accumulated depreciation for a net capitalized value of \$124.1 million. The Stadium expansion, which was put into service in September 2010, is included in the complex at a historic cost of \$78.3 million, less \$1.6 million in accumulated depreciation.

### 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, 2011, 2010, and 2009 are as follows:

<b>Condensed Statements of Net Assets</b>					
<b>June 30, 2011, 2010, and 2009</b>					
(In Thousands)					
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011 - 2010</b>	<b>2010 - 2009</b>
				<b>Change</b>	<b>Change</b>
<b>ASSETS</b>					
Current assets	\$ 45,286	\$ 47,496	\$ 79,022	\$ (2,210)	\$ (31,526)
Long-term investments	37,239	32,482	30,052	4,757	2,430
Capital assets, net	136,021	128,394	83,677	7,627	44,717
Other	33,330	38,080	37,298	(4,750)	782
Total assets	<u>251,876</u>	<u>246,452</u>	<u>230,049</u>	<u>5,424</u>	<u>16,403</u>
<b>LIABILITIES</b>					
Current liabilities	44,505	41,897	32,178	2,608	9,719
Noncurrent liabilities	90,158	98,936	98,460	(8,778)	476
Total liabilities	<u>134,663</u>	<u>140,833</u>	<u>130,638</u>	<u>(6,170)</u>	<u>10,195</u>
<b>NET ASSETS</b>					
Invested in capital assets,	62,711	56,327	51,894	6,384	4,433
Restricted-nonexpendable	1,535	1,268	1,083	267	185
Restricted-expendable	33,681	38,213	23,786	(4,532)	14,427
Unrestricted	19,286	9,811	22,648	9,475	(12,837)
Total net assets	<u>\$ 117,213</u>	<u>\$ 105,619</u>	<u>\$ 99,411</u>	<u>\$ 11,594</u>	<u>\$ 6,208</u>

## **Assets**

Current assets of \$45.3 million represent 18% of total assets. These assets mainly consist of \$34.9 million in cash and cash equivalents, \$6.4 million in deposits with bond trustees, and \$3.1 million in accounts and contributions receivable. Current assets decreased \$2.2 million, or 5%, 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 a \$2.4 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. These decreases were offset by the \$10.3 million increase in cash and cash equivalents, due mainly to the \$3.3 million increase in distributions from the NCAA and the \$2.9 million increase in cash received for ticket sales, as a result of increased seat availability in the Stadium expansion and downtown arena.

The remaining \$206.6 million, or 82% of total assets, is classified as noncurrent. The Association's most significant long-term assets are \$136.0 million in net capital assets, \$36.8 million in investments held with the University of Louisville Foundation, Inc. (Foundation), \$17.2 million in accounts and contributions receivable, and \$14.1 million in restricted cash. Noncurrent assets increased \$7.6 million over the prior year, due mainly to increases in capital assets and investments held with the Foundation. The increase in capital assets of \$7.6 million is related mainly to the final expenditures related to the Stadium expansion. Investments held with the Foundation increased due mainly to the \$3.7 million unrealized gains recognized as the market value of the investments increased over the prior year.

## **Liabilities**

Current liabilities were \$44.5 million at June 30, 2011. This consists primarily of \$30.4 million in deferred revenues for advanced football and basketball ticket sales and sponsorships. Deferred revenue increased \$6.6 million over the prior year, due to the increased membership in the Cardinal Athletic Fund (CAF) program and the timing of invoicing related to the CAF payments. Accounts payable and accrued liabilities decreased \$6.1 million due mainly to the payment of construction related payables due at June 30, 2010.

Noncurrent liabilities were \$90.2 million, or 67% of total liabilities, at June 30, 2011. The most significant noncurrent liability consists of \$67.8 million in bonds and notes payable for the Stadium. The Association also has \$10.9 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 decreased \$8.8 million, or 9%, when compared to the prior year due to scheduled payments on bonds and notes payable. Additionally, deferred compensation and wages payable decreased \$2.3 million due to the reclassification to current liabilities, as certain payments are expected to be made during the next fiscal year.

## **Net Assets**

Total net assets of \$117.2 million as of June 30, 2011 are reported in the following net asset categories: invested in capital assets, net of related debt, \$62.7 million (54%); restricted nonexpendable, \$1.5 million (1%); restricted-expendable, \$33.7 million (29%); and unrestricted, \$19.3 million (16%).

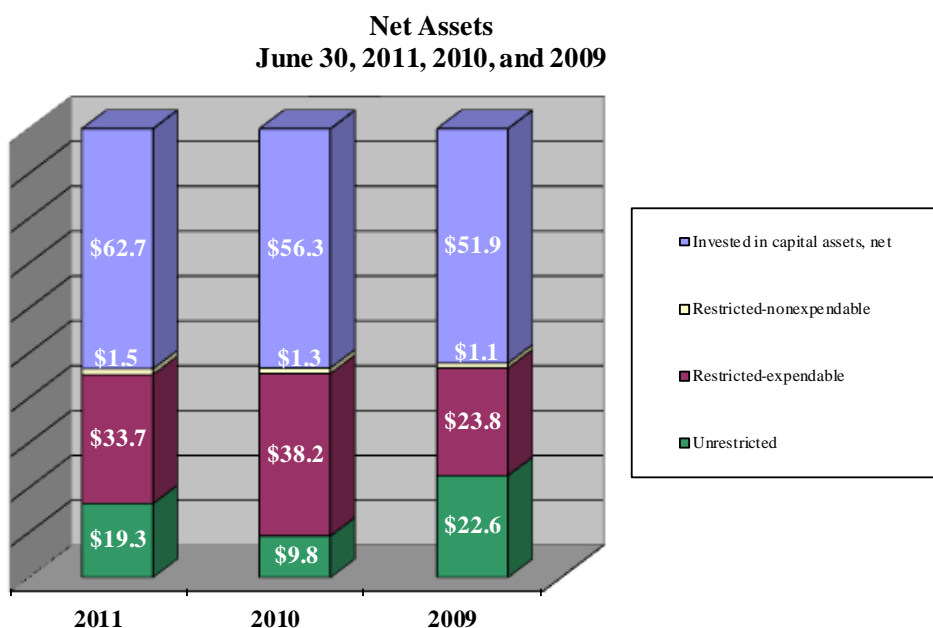
Net assets invested in capital assets, net of related debt, represents primarily the net investment in the Stadium. Restricted nonexpendable net assets are subject to externally imposed restrictions that

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, 2010, restricted-expendable net assets decreased \$4.5 million, due mainly to the use of funds applied to the construction of the Stadium expansion. Net assets restricted for capital projects decreased \$22.0 million, as \$23.5 million of net assets related to pledges for the Stadium expansion were moved to net assets restricted for debt service, as the expansion project is completed and the net assets related to the pledges will be used for debt service.

Unrestricted net assets increased \$9.5 million as compared to the prior year balance of \$9.8 million. This increase is due mainly to the \$4.8 million increase in unrestricted investments held in the Foundation. These investments increased due to additional investments of \$1.2 million and unrealized gains on the unrestricted investments of \$3.6 million.

A graphic illustration of net assets as of June 30, 2011, 2010, and 2009 is as follows:



### Fiscal Year 2010

Total assets at June 30, 2010 were \$246.4 million, an increase of \$16.4 million compared to the \$230.0 million as of June 30, 2009. The increase is due to an \$8.6 million increase in restricted cash due to the receipt of pledges related to the expansion of the Stadium. Additionally, cash and cash equivalents increased \$5.5 million due to the increase in the number of games in the 2011 football season, for which cash payments were received in the Spring 2010.

Liabilities at June 30, 2010 were \$140.8 million as compared to \$130.6 million as of June 30, 2009. The increase of \$10.2 million is due mainly to a total increase in deferred revenues of \$9.1 million due to the additional football game.

Net assets at June 30, 2010 were \$105.6 million, an increase of \$6.2 million from the June 30, 2009 net assets of \$99.4 million. This increase is due mainly to the \$3.6 million in total investment

income, gains, and losses. This includes the \$1.9 million of unrealized gains on investments in the Foundation, due to increased market values at June 30, 2010.

### 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, 2011, 2010 and 2009 are as follows:

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**Years ended June 30, 2011, 2010, and 2009**  
(In Thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011 - 2010</u> <u>Change</u>	<u>2010 - 2009</u> <u>Change</u>
<b>OPERATING REVENUES</b>					
Sports	\$ 37,276	\$ 27,383	\$ 30,318	\$ 9,893	\$ (2,935)
Other operating revenues	6,993	6,523	7,420	470	(897)
Total operating revenues	<u>44,269</u>	<u>33,906</u>	<u>37,738</u>	<u>10,363</u>	<u>(3,832)</u>
<b>OPERATING EXPENSES</b>					
Sports	38,938	35,549	32,211	3,389	3,338
Other operating expenses	24,337	23,371	21,646	966	1,725
Depreciation	3,681	2,101	2,103	1,580	(2)
Total operating expenses	<u>66,956</u>	<u>61,021</u>	<u>55,960</u>	<u>5,935</u>	<u>5,061</u>
Operating loss	<u>(22,687)</u>	<u>(27,115)</u>	<u>(18,222)</u>	<u>4,428</u>	<u>(8,893)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	30,902	27,567	18,937	3,335	8,630
Net realized and unrealized gain/ (loss) on investments	3,722	1,868	(8,276)	1,854	10,144
Investment income (net of investment expense)	648	1,712	1,881	(1,064)	(169)
Other nonoperating expenses	(2,510)	(1,337)	(1,795)	(1,173)	458
Net assets transferred from/(to) related entities	1,519	3,513	4,132	(1,994)	(619)
Net nonoperating revenues	<u>34,281</u>	<u>33,323</u>	<u>14,879</u>	<u>958</u>	<u>18,444</u>
Increase/(decrease) in net assets	<u>11,594</u>	<u>6,208</u>	<u>(3,343)</u>	<u>5,386</u>	<u>9,551</u>
<b>NET ASSETS</b>					
Net assets-beginning of year	<u>105,619</u>	<u>99,411</u>	<u>102,754</u>	<u>6,208</u>	<u>(3,343)</u>
Net assets-end of year	<u>\$ 117,213</u>	<u>\$ 105,619</u>	<u>\$ 99,411</u>	<u>\$ 11,594</u>	<u>\$ 6,208</u>

### Operating Revenues

Total operating revenues were \$44.3 million and \$33.9 million for the years ended June 30, 2011 and 2010, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised \$37.3 million, or 84% of total operating revenues for the year. Other operating revenues amounting to \$7.0 million and \$6.5 million for the years ended June 30, 2011 and 2010,

respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts.

The \$10.4 million increase in operating revenue results mainly from an increase in ticket revenue for men's basketball and football. Men's basketball revenue increased \$4.7 million, or 34%, due mainly to the increase in number of seats in the downtown arena, which contributed to an 11% increase in season tickets sold. Total football revenue increased \$4.6 million, or 36% as compared to the prior year, due to additional seating available in the Stadium expansion, with a 29% increase in season tickets sold, and to an additional home game as compared to the prior season.

### **Operating Expenses**

Total operating expenses were \$67.0 million and \$61.0 million for the years ended June 30, 2011 and 2010, respectively. For the year ended June 30, 2011, expenses consist mainly of \$38.9 million in direct sports-related expenses. The remaining \$28.1 million in operating expenses consist mainly of support services of \$6.9 million; marketing and development of \$5.8 million; and administrative expenses of \$4.4 million. The depreciation expense of \$3.7 million is associated primarily with the Stadium.

Total operating expenses increased by \$5.9 million, or 10%, in the current year due mainly to expenses related to the sports programs. Total basketball expenses increased \$2.2 million, due to increased expenses related to the lease agreement with the arena, including increases in the seat licensing fees, rental fees, and insurance premiums.

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

The Association's loss from operations amounted to \$22.7 million and \$27.1 million for the years ended June 30, 2011 and 2010, respectively. During the fiscal year ended June 30, 2011, the operating loss was offset by the \$34.3 million in nonoperating revenues leaving an increase in net assets of \$11.6 million. This is an increase of \$5.4 million as compared to the \$6.2 million increase in net assets realized during the fiscal year ended June 30, 2010.

Overall, nonoperating revenues remained steady, increasing \$1.0 million, or 3%. The increase in gifts of \$12.0 million is due to the increase in the number of contributors to the CAF, due to the increase in the number of season tickets available for basketball and football. This increase was offset by the \$8.7 million decrease in capital gifts, due to the timing of the Association's capital projects.

### **Fiscal Year 2010**

The Association had an increase in net assets for the year ended June 30, 2010 of \$6.2 million, which was an increase compared to the \$3.3 million decrease for the fiscal year ended June 30, 2009. Operating revenues decreased \$3.8 million due to 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. At the same time, operating expenses increased by \$5.1 million, or 9%, due to increases in expenses related to the sports programs, including an increase of \$2.6 million in football expenses due mainly to increased contractual expenses associated with the change in coaching staff.

The \$18.4 million increase in nonoperating revenues is due to the \$10.1 million increase in total net realized and unrealized gains and losses and the \$8.3 million increase in capital gifts. This increase is due mainly to the market value recovery of investments with the Foundation and gifts received for the Stadium expansion project.

## 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, 2011, 2010 and 2009 is as follows:

### Condensed Statements of Cash Flows Years ended June 30, 2011, 2010, and 2009 (In Thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011 - 2010</u> <u>Change</u>	<u>2010 - 2009</u> <u>Change</u>
Cash (used)/provided by:					
Operating activities	\$ (19,942)	\$ (18,918)	\$ (17,570)	\$ (1,024)	\$ (1,348)
Noncapital financing activities	37,962	24,649	17,223	13,313	7,426
Capital financing activities	(9,351)	7,184	(2,983)	(16,535)	10,167
Investing activities	<u>(706)</u>	<u>1,187</u>	<u>3,823</u>	<u>(1,893)</u>	<u>(2,636)</u>
Net increase in cash and cash equivalents	7,963	14,102	493	(6,139)	13,609
Cash and cash equivalents, beginning of year	<u>41,067</u>	<u>26,965</u>	<u>26,472</u>	<u>14,102</u>	<u>493</u>
Cash and cash equivalents, end of year	<u>\$ 49,030</u>	<u>\$ 41,067</u>	<u>\$ 26,965</u>	<u>\$ 7,963</u>	<u>\$ 14,102</u>

### Operating Activities

The Association's cash and cash equivalents increased by \$8.0 million during the year. The Association experienced a net outflow of \$19.9 million in cash paid for operations, an increase of \$1.0 million, or 5% compared to the fiscal year ended June 30, 2010. Cash provided by NCAA distributions increased \$3.3 million due to increased receipts related to the men's basketball team of \$1.5 million and the football team of \$1.2 million. Cash provided by ticket sales increased \$2.9 million, due mainly to cash received for men's basketball tickets. This was offset by the increase in payments to suppliers of \$6.3 million, due mainly to a \$2.3 million increase in lease payments related to the men's and women's basketball teams and \$1.0 million of expenses incurred related to the football post-season bowl game.

### Other Activities

Cash provided by noncapital and related financing activities of \$37.9 million offset the cash used by operating activities. These cash flows consist primarily of \$35.8 million in gifts received to support the sports programs. Additionally, the Association received \$2.1 million from related entities. During the current fiscal year, the Association transferred approximately \$3.4 million to the University to fund bond payments and other construction costs that relate to Association projects. This was offset by the approximately \$4.2 million transferred to the Association from the University related to gender equity, retention, and student fees collected for use by the Association.

Cash used by capital financing relates mainly to \$6.0 million in principal paid on bonds and notes payable. Cash received from deposits with bond trustee of \$10.7 million primarily funded the \$17.4 million of purchases of capital assets.

Cash used by investing activities was \$0.7 million, compared to the \$1.2 million of cash provided in the prior year. This increase in cash used is due mainly to the net purchase of investments of \$1.3 million, as the Association increased the amount of funds invested with the Foundation.

## **Fiscal Year 2010**

The Association's cash and cash equivalents increased by \$14.1 million during the year ended June 30, 2010. As compared to the fiscal year ended June 30, 2009, the Association used \$1.3 million more cash for operations, while noncapital and capital financing activities provided \$17.6 million more than in fiscal year 2009.

Cash provided by ticket sales increased \$4.7 million, due mainly to increased receipts for the 2010 football season, which included one additional home game as compared to the 2009 football season. This was offset by the increase in payments to employees of \$6.7 million, related mainly to increase in coaches' contractual benefits.

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. 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. This decrease 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.

## **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. The Association has started planning for the next several capital construction projects, such as expansion of the Patterson baseball stadium, Ulmer softball stadium, and a new soccer stadium.

The Association's Board of Directors approved a balanced operating budget for the 2012 fiscal year. The balanced budget calls for \$68.8 million in revenues and expenses, a 7% increase over the original 2011 fiscal year budget of \$64.4 million. The budget includes an increase in men's basketball revenue of 13%, with an increase in expenses of 3%. Expenses associated with the downtown arena are projected at \$4.3 million, the same amount as the prior year. Football revenue is expected to decrease 8% due to fewer home games in the 2011 season. The other main source of revenue, annual Cardinal Athletic Fund donations, is projected to increase \$3.3 million to \$16.0 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, 2011 and 2010**  
**(In Thousands)**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 34,892	\$ 24,588
Deposits with bond trustee	6,415	16,828
Accounts and contributions receivable, net	3,110	5,537
Due from University of Louisville	-	245
Other assets	869	298
Total current assets	45,286	47,496
Noncurrent Assets:		
Restricted cash	14,138	16,479
Deposit with bond trustee	1,230	1,468
Accounts and contributions receivable, net	17,236	19,337
Investments held with University of Louisville Foundation, Inc.	36,843	32,086
Other long-term investments	396	396
Other long-term assets	726	796
Capital assets, net	136,021	128,394
Total noncurrent assets	206,590	198,956
Total assets	251,876	246,452
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	3,679	9,805
Deferred compensation and wages payable	3,829	1,647
Deferred revenue	30,373	23,806
Note payable to University of Louisville Foundation, Inc.	305	500
Bonds and note payable	6,319	6,139
Total current liabilities	44,505	41,897
Noncurrent Liabilities:		
Due to University of Louisville	9,173	8,563
Due to University of Louisville Foundation, Inc.	316	316
Deferred compensation and wages payable	7,718	9,976
Note payable to University of Louisville Foundation, Inc.	1,400	1,705
Deferred revenue	3,102	3,329
Other long term liabilities	662	940
Bonds and note payable	67,787	74,107
Total noncurrent liabilities	90,158	98,936
Total liabilities	134,663	140,833
<b>NET ASSETS</b>		
Invested in capital assets, net	62,711	56,327
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,535	1,268
Expendable		
Scholarships and fellowships	661	633
Institutional support	1,645	1,913
Capital projects	2,783	24,801
Debt service	28,238	10,388
Other	354	478
Unrestricted	19,286	9,811
Total net assets	\$ 117,213	\$ 105,619

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, 2011 and 2010**  
**(In Thousands)**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Sports:		
Basketball	\$ 18,611	\$ 13,898
Football	17,496	12,882
Other sports	1,169	603
Total sports	<u>37,276</u>	<u>27,383</u>
Papa John's Cardinal Stadium	597	511
Marketing & development	4,264	3,638
Administration	932	1,287
Support services	390	366
Other operating revenues	810	721
Total operating revenues	<u>44,269</u>	<u>33,906</u>
<b>OPERATING EXPENSES</b>		
Sports:		
Basketball	10,101	7,891
Football	11,576	12,582
Other sports	17,261	15,076
Total sports	<u>38,938</u>	<u>35,549</u>
Papa John's Cardinal Stadium	1,298	742
Marketing & development	5,782	7,290
Administration	4,434	4,529
Support services	6,903	5,600
Game management/facilities operations	2,324	1,795
Depreciation	3,681	2,101
Other operating expenses	3,596	3,415
Total operating expenses	<u>66,956</u>	<u>61,021</u>
Operating loss	<u>(22,687)</u>	<u>(27,115)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	28,645	16,635
Investment income (net of investment expense)	648	1,712
Net realized and unrealized gain on investments	3,722	1,868
Interest on capital related debt	(2,576)	(1,402)
Other nonoperating revenues	66	65
Net nonoperating revenues	<u>30,505</u>	<u>18,878</u>
Capital gifts	2,257	10,932
Transfers from related entities	1,519	3,513
Total other revenues	<u>34,281</u>	<u>33,323</u>
Increase in net assets	<u>11,594</u>	<u>6,208</u>
<b>NET ASSETS</b>		
Net assets-beginning of year	105,619	99,411
Net assets-end of year	<u>\$ 117,213</u>	<u>\$ 105,619</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, 2011 and 2010**  
**(In Thousands)**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Ticket sales	\$ 23,705	\$ 20,810
NCAA distributions	8,345	5,052
Payments to suppliers	(25,606)	(19,295)
Payments to employees	(24,658)	(25,866)
Payments for utilities	(22)	(130)
Payments for benefits	(4,016)	(3,029)
Payments for scholarships and fellowships	(10,923)	(9,653)
Other athletic program receipts, net	13,233	13,193
Net cash used by operating activities	<u>(19,942)</u>	<u>(18,918)</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Gifts	35,833	21,237
Transfers from related entities	2,129	3,421
Other payments	-	(9)
Net cash provided by noncapital and related financing activities	<u>37,962</u>	<u>24,649</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	6,493	12,783
Proceeds from issuance of bonds and notes payable	-	2,400
Purchases of capital assets	(17,410)	(46,129)
Principal paid on bonds payable	(6,003)	(2,545)
Interest paid on bonds payable	(2,582)	(1,354)
Deposits with bond trustee	10,651	42,529
Net cash (used)/provided by capital financing activities	<u>(9,351)</u>	<u>7,184</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	6,072	5,202
Purchase of investments	(7,366)	(5,700)
Interest on investments	588	1,685
Net cash (used)/provided by investing activities	<u>(706)</u>	<u>1,187</u>
Net increase in cash and cash equivalents	7,963	14,102
Cash and cash equivalents - beginning of year	41,067	26,965
Cash and cash equivalents - end of year	<u>\$ 49,030</u>	<u>\$ 41,067</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (22,687)	\$ (27,115)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	3,681	2,101
Change in assets and liabilities:		
Accounts and contributions receivable, net	262	119
Other assets	(571)	184
Accounts payable and accrued liabilities	44	(321)
Deferred revenue	(572)	4,566
Deferred compensation and wages payable	179	1,161
Other long-term liabilities	(278)	387
Net cash used by operating activities	<u>\$ (19,942)</u>	<u>\$ (18,918)</u>
Transfer of equipment from the University of Louisville	\$ -	\$ 92
Capital asset additions in accounts payable	<u>\$ 1,007</u>	<u>\$ 7,109</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, 2011 and 2010**

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, 2011 and 2010, deposits with bond trustees consist of cash and investments in governmental securities and guaranteed investment contracts of \$7.6 million and \$18.3 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 Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky (Commonwealth). The Foundation's board of directors has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. 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 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>2011</u>	<u>2010</u>
Total interest expense incurred on borrowings for project	\$ 3,101	\$ 3,209
Interest income from investment of proceeds of borrowings for project	(371)	(1,358)
Net interest cost on borrowings for project	<u>\$ 2,730</u>	<u>\$ 1,851</u>
Interest capitalized	\$ 569	\$ 1,851
Interest charged to expenses	2,576	1,402
Total interest incurred	<u>\$ 3,145</u>	<u>\$ 3,253</u>

Projects with interest subject to capitalization were completed in September 2010; therefore, only a portion of the net interest cost on borrowings was capitalized.

g. Deferred 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 consist primarily of amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, and parking revenue, was approximately \$33.5 million and \$27.1 million at June 30, 2011 and 2010, 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 2010 amounts have been reclassified to conform with the 2011 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>2011</u>	<u>2010</u>
Deposits	\$ 49,030	\$ 41,067
Investments		
U.S. Treasury obligations	3,416	7,486
Guaranteed investment contracts	4,229	10,810
Investments held with the University of Louisville Foundation, Inc.	36,843	32,086
Certificates of deposit	100	100
Annuities	296	296
	<u>\$ 93,914</u>	<u>\$ 91,845</u>
Included in the following statement of net assets captions:		
Cash and cash equivalents	\$ 34,892	\$ 24,588
Deposit with bond trustee-current	6,415	16,828
Restricted cash and cash equivalents	14,138	16,479
Deposit with bond trustee-noncurrent	1,230	1,468
Investments held with the University of Louisville Foundation, Inc.	36,843	32,086
Other long-term investments	396	396
	<u>\$ 93,914</u>	<u>\$ 91,845</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 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, 2011 and 2010, the Association had the following investments subject to interest rate risk (in thousands):

June 30, 2011					
Type	Fair Value	Maturities in years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 3,416	\$ 3,416			
Guaranteed investment contracts	4,229	-	\$ 2,368	\$ 203	\$ 1,658
Certificates of deposit	100	100	-	-	-
	<u>\$ 7,745</u>	<u>\$ 3,516</u>	<u>\$ 2,368</u>	<u>\$ 203</u>	<u>\$ 1,658</u>

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>

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, 2011 and 2010, the \$36.8 million and \$32.1 million, respectively, 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, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Investment in partnerships	54%	54%
Marketable alternatives	19%	19%
Preferred and common stock	12%	10%
Mutual funds	11%	12%
Corporate bonds	3%	4%
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, 2011 or 2010.

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, 2011 and 2010, the Association made no reimbursement per agreement with the University.

b. University of Louisville Foundation, Inc.

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, 2011 and 2010, the Foundation held funds of the Association of approximately \$36.8 million and \$32.1 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 2009A and Series 2009B. 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, 2011 and 2010, the Association has noninterest bearing debt with no specific repayment terms of approximately \$9.2 million and \$8.6 million, respectively, with the University. The debt relates to \$8.6 million of expenditures incurred in fiscal years 1999 and 2000 during the construction of the Stadium. During the year ended June 30, 2011, the Association agreed to repay the University for \$0.6 million of expenditures incurred during fiscal years 2003 and 2004 related to the Wright Natatorium.

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, 2011 and 2010, the Association repaid approximately \$0.5 million. The outstanding balance was approximately \$1.7 million and \$2.2 million as of June 30, 2011 and 2010, respectively, of which approximately \$0.3 and \$0.5 million was shown as current as of June 30, 2011 and 2010.

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, 2011 and 2010.

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 for the each of the years ended June 30, 2011 and 2010, respectively. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred \$2.0 million and \$1.9 million of student fees collected for the years ended June 30, 2011 and 2010, respectively.

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 \$3.4 million and \$1.8 million related to capital projects and debt service payments during the fiscal years ended June 30, 2011 and 2010, respectively. Included in the transfer amount for the fiscal year ended June 30, 2011 is \$1.5 million transferred to ULH, a subsidiary of the Foundation related to a construction project. During each of the fiscal years ended June 30, 2011 and 2010, the University transferred to the Association \$0.9 million 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 the year ended June 30, 2010 related to this agreement, which was the final year under the agreement.

Additionally, the Association transferred \$0.2 million and received \$0.8 million from the University for the years ended June 30, 2011 and 2010, respectively, related to other transactions.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2011 and 2010 are as follows (in thousands):

	<b>2011</b>		
	<u>Gross</u>	<u>Allowance</u>	<u>Net</u>
Trade receivables	\$ 710		\$ 710
Contributions receivable	22,438	\$ (1,588)	20,850
Total	<u>\$ 23,148</u>	<u>\$ (1,588)</u>	21,560
Less: Discount			(1,214)
Current portion			<u>3,110</u>
Non current portion			<u>\$ 17,236</u>

	<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>

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 0.1% to 5.8%.

Contributions receivable as of June 30, 2011 and 2010 are due to be received as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 3,114	\$ 5,290
One to three years	4,943	5,583
Greater than three years	14,381	16,221
Subtotal	22,438	27,094
Less: discount	(1,214)	(1,527)
Less: allowance	(1,588)	(1,422)
Net contributions receivable	<u>\$ 19,636</u>	<u>\$ 24,145</u>

5. Capital Assets, Net

Capital assets as of June 30, 2011 and 2010 are as follows and on the following page (in thousands):

	<b>2011</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	
<b>Cost-Nondepreciable</b>				
Land	\$ 5,111	\$ 40		\$ 5,151
Construction in progress	70,416	2,440	\$ (72,782)	74
Subtotal	<u>75,527</u>	<u>2,480</u>	<u>(72,782)</u>	<u>5,225</u>
<b>Cost-Depreciable</b>				
Buildings	73,709	8,734	72,988	155,431
Land improvements	1,364	-	-	1,364
Equipment	1,427	94	(206)	1,315
Leasehold improvements	1,299	-	-	1,299
Subtotal	<u>77,799</u>	<u>8,828</u>	<u>72,782</u>	<u>159,409</u>
Total capital assets-cost	<u>153,326</u>	<u>11,308</u>	<u>-</u>	<u>164,634</u>
<b>Accumulated depreciation</b>				
Buildings	23,575	3,454	-	27,029
Land improvements	114	35	-	149
Equipment	809	133	-	942
Leasehold improvements	434	59	-	493
Subtotal	<u>24,932</u>	<u>3,681</u>	<u>-</u>	<u>28,613</u>
Capital assets, net	<u>\$ 128,394</u>	<u>\$ 7,627</u>	<u>\$ -</u>	<u>\$ 136,021</u>

	<b>2010</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers</b>	<b>Ending Balance</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>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>77,799</u>
Total capital assets-cost	<u>106,508</u>	<u>46,726</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>24,932</u>
Capital assets, net	<u>\$ 83,677</u>	<u>\$ 44,625</u>	<u>\$ 92</u>	<u>\$ 128,394</u>

## 6. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2011 and 2010 are summarized as follows (in thousands):

	<b>2011</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	\$ 37,600		\$ (4,125)	\$ 33,475	\$ 4,260	\$ 29,215
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.0% to 4.8% Final maturity in 2028	39,750		(1,580)	38,170	1,625	36,545
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	2,400		(298)	2,102	312	1,790
Total bonds payable	79,750		(6,003)	73,747	6,197	67,550
Plus unamortized net premium	496		(137)	359	122	237
Bonds payable, net	<u>\$ 80,246</u>	<u>\$ -</u>	<u>\$ (6,140)</u>	<u>\$ 74,106</u>	<u>\$ 6,319</u>	<u>\$ 67,787</u>
	<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>

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

<b>For the Year</b>			
<b>Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	7,186	2,038	9,224
2017 - 2021	21,441	6,321	27,762
2022 - 2026	12,925	3,297	16,222
2027 - 2028	6,020	448	6,468
Total	<u>\$ 73,747</u>	<u>\$ 22,804</u>	<u>\$ 96,551</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.

7. Other Liabilities

Other liabilities as of June 30, 2011 and 2010 are summarized as follows (in thousands):

	<b>2011</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	\$ 610		\$ 9,173		\$ 9,173
Due to University of Louisville Foundation Inc.	316			316		316
Deferred compensation and wages payable	11,623	1,622	\$ (1,698)	11,547	\$ 3,829	7,718
Note payable to University of Louisville Foundation, Inc.	2,205	-	(500)	1,705	305	1,400
Deferred revenue	27,135	30,185	(23,845)	33,475	30,373	3,102
Other long-term liabilities	1,095	(217)	(90)	788	126	662
Total	<u>\$ 50,937</u>	<u>\$ 32,200</u>	<u>\$ (26,133)</u>	<u>\$57,004</u>	<u>\$34,633</u>	<u>\$ 22,371</u>

	<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>

Other long-term liabilities as of June 30, 2011 and 2010, 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, 2011 and 2010.

8. Natural Classification

Operating expenses by natural classification for the years ended June 30, 2011 and 2010 were approximately (in thousands):

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 24,218	\$ 26,021
Employee benefits	4,190	4,525
Supplies and services	23,922	18,706
Utilities	22	15
Scholarships and fellowships	10,923	9,653
Depreciation	3,681	2,101
	<u>\$ 66,956</u>	<u>\$ 61,021</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 \$1.2 million and \$1.3 million during the years ended June 30, 2011 and 2010, 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 employee's 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, 2011 and 2010, the University contributed approximately \$0.5 million and \$0.8 million, approximately 42 percent and 53 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, 2011 and 2010, approximately 58 percent and 47 percent of total premiums, respectively, through their required monthly contributions according to the following schedule:

	<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

Medicare-eligible retirees receive a monthly benefit of \$108 per individual covered. For each of the years ended June 30, 2011 and 2010, the University contributed \$1.1 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):

	<b>2011</b>	<b>2010</b>
Normal cost	\$ 5,033	\$ 5,429
AAL amortization	4,215	4,556
Annual required contribution (ARC)	9,248	9,985
Interest on above	710	943
Adjustment to ARC	(789)	(1,130)
OPEB liability (gain)/loss	(15,256)	4,825
Annual OPEB (gain)/cost (AOC)	(6,087)	14,623
Contributions made	(1,643)	(1,916)
(Decrease)/increase in net OPEB obligation	(7,730)	12,707
Net OPEB obligation - beginning of year	30,463	17,756
Net OPEB obligation - end of year	<u>\$ 22,733</u>	<u>\$ 30,463</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 (Gain)/Cost	Percentage of Annual OPEB (Gain)/ Cost Contributed	Net OPEB Obligation
2011	\$ (6,087)	-27%	\$ 22,733
2010	14,623	13%	30,463
2009	13,475	15%	17,756

The University allocates a portion of the AOC, and the corresponding OPEB obligation, to its affiliated corporations, including the Association. For the years ended June 30, 2011 and 2010, the Association's portion of the AOC was \$0.2 million and \$0.5 million, respectively. The Association's net OPEB obligation was \$0.8 million and \$1.1 million, of which \$0.7 million and \$0.9 million was recorded in other long-term liabilities and \$0.1 million and \$0.2 million was recorded in accounts payable and accrued expenses as of June 30, 2011 and 2010, respectively.

d. Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$79.9 million and \$88.8 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$79.9 million and \$88.8 million as of June 30, 2011 and 2010, respectively. The covered payroll (annual payroll of active employees covered by the plan) was \$400.9 million and \$378.1 million, and the ratio of the UAAL to the covered payroll was 20 percent and 23 percent, for the years ended June 30, 2011 and 2010, 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, 2010, 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 9 years. The gain on the benefit obligation is due to updates made on expected future health claims. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2011 was 26 years.

11. 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 entered into a Termination Agreement, dated July 2008, with KSFB that allowed the Association to terminate the existing lease without penalty when the basketball teams moved to the Arena.

The lease had an initial term of 25 years. Annual lease payments were 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, 2011 and 2010 amounted to approximately \$55,000 and \$1,493,000, respectively.

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

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 each of the years ended June 30, 2011 and 2010 amounted to approximately \$79,000.

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. Total lease expense during the year ended June 30, 2011 amounted to approximately \$3.0 million. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during the year ended June 30, 2011 amounted to approximately \$0.7 million.

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 percent 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. Total lease revenue during the year ended June 30, 2011 amounted to approximately \$2.2 million.

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>
2012	\$ 364
2013	364
2014	364
2015	364
2016	364
2017 - 2021	1,821
2022 - 2026	1,821
2027 - 2031	1,445
2032 - 2036	1,425
2037 - 2041	1,425
2042 - 2044	855
Future minimum lease payments	<u>\$ 10,612</u>

12. Commitments and Contingencies

a. Commitments

At June 30, 2011 and 2010, the Association had approximately \$1.6 million and \$2.6 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>
7/1/2010	\$ -	\$ 79,892	\$ 79,892	0%	\$ 400,911	20%
7/1/2009	-	88,808	88,808	0%	378,059	23%
7/1/2008	-	78,455	78,455	0%	358,680	22%

The gain on the benefit obligation is due to updates made on expected future health claims. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates.