UNIVERSITY OF LOUISVILLE
ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Auditor's Report and Financial Statements
June 30, 2018 and 2017

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Louisville Athletic Association, Inc. (Association), a component unit of the University of Louisville, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Association as of June 30, 2018, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During fiscal year ended June 30, 2018, the Association adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* As a result of the implementation of this standard, the Association reported a restatement for the change in accounting principle (see Note 1.) Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Prior Year Financial Statements

The 2017 financial statements of the Association were audited by other auditors whose report dated October 19, 2017, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, and the Schedule of Funding Progress on Page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Louis, Missouri
October 25, 2018

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) as of and for the years ended June 30, 2018, 2017, and 2016. 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 nonprofit corporation organized in 1984 for the purpose of promoting the intercollegiate athletic activities of the University of Louisville (University), a state-supported metropolitan research university located in Kentucky's largest city. 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 National Collegiate Athletic Association (NCAA) compliance, ensuring full implementation of gender equality plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors.

The Association continues to support the athletic achievements of the students by expanding and improving the facilities. During the June 30, 2018 fiscal year, a $63 million expansion that included additional seating and training space was near completion. During the June 30, 2017 fiscal year, construction of the $20 million Thornton Academic Center was opened for student athlete dining and Academic Counseling.

The Association continues to invest in the academic achievement and community involvement of the student-athletes. During the 2017/2018 academic year, the Association had 364 student-athletes included in the ACC Honor Roll. In addition, seven teams – men's basketball (NABC), women's lacrosse (IWLCA), women's cross country (USTFCCCA), women's track and field (USTFCCCA), field hockey (NFHCA), women's tennis (ITA) and volleyball (AVCA) – were recognized by their national associations for academic achievement.

Financial Highlights

The Association's financial position at June 30, 2018 is characterized by the following:

- Total assets were $321.7 million, a decrease of $5.9 million, or 2%, from June 30, 2017, due mainly to a reduction in investments held with the University of Louisville Foundation, Inc. used primarily to fund certain one time costs related to separation of employment with the former athletic director and hiring a new coach.

- Total liabilities were $184.9 million, an increase of $10.2 million, or 5.6%, compared to June 30, 2017, due mainly to increased payables and accrued expenses related to the construction of the stadium expansion and the ACC network production studio.

- Net position, which represents the residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was $137.1 million, a decrease of $16.6 million, or 10.8%, compared to June 30, 2017.

- Operating revenues amounted to $76.5 million and when offset by operating expenses of $118.9 million, an operating loss of $42.4 million resulted. The operating loss was offset by other revenues of $28.3 million resulting in a decrease in net position of $14.1 million for the year ended June 30, 2018.

- Other revenues of $28.3 million consist of $29.6 million in gifts, capital gifts and contributions and $0.4 million of investment returns, including realized and unrealized gains, offset by $0.3 million of interest on capital related debt and other expenses of $1.4 million.

As of June 30, 2018, the ratio of assets to liabilities was 1.7, slightly less than the prior ratio of 1.9. The Association's most significant asset, the Stadium, is reflected at its historic cost of $223.8 million less $50.6 million in accumulated depreciation for a net capitalized value of $173.2 million.

Statements of Net Position

The statements of net position present the financial position of the Association at the end of each fiscal year. Net position represents the difference between total assets, total deferred outflows of resources, total liabilities, and total deferred inflow of resources. The change in net position indicates whether the overall financial condition has accumulated or consumed resources during the year. Assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2018, 2017, and 2016 are as follows:

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
ASSETS					
Current assets	$ 52,633	$ 69,448	$ 52,709	$ (16,815)	$ (8,541)
Long-term investments	1,358	1,558	27,938	(200)	(1,100)
Capital assets, net	218,424	176,676	165,384	41,748	11,292
Other	49,265	79,893	34,067	(30,628)	45,826
Total assets	321,680	327,575	280,098	(5,895)	47,477
DEFERRED OUTFLOWS	1,566	1,679	441	(113)	1,238
LIABILITIES					
Current liabilities	61,058	59,449	58,841	1,609	608
Noncurrent liabilities	123,836	115,224	81,550	8,612	33,674
Total liabilities	184,894	174,673	140,391	10,221	34,282
DEFERRED INFLOWS	1,262	857	175	405	682
NET POSITION					
Net investment in capital assets	124,765	124,758	113,091	7	11,667
Restricted - nonexpendable	1,633	1,633	1,633	-	-
Restricted - expendable	28,368	28,681	24,362	(313)	3,047
Unrestricted	(17,676)	(1,348)	887	(16,328)	(963)
Total net position	$ 137,090	$ 153,724	$ 139,973	$ (16,634)	$ 13,751

Assets

Current assets of $52.6 million represent 16% of total assets. These assets mainly consist of $23.5 million in cash and cash equivalents, $13.9 million in investments held with the Foundation, $12.3 million in accounts and contributions receivable and inventory of $2.6 million. Current assets decreased by $16.8 million, with decreases in cash and cash equivalents and investments held with University of Louisville Foundation, Inc. A $7.0 million decrease in current cash and equivalents is primarily a result of deferred compensation payments, and timing of ticket sales for the 2018/2019 season. The decrease in new pledges for the Stadium expansion contributed to the $1.0 million decrease in accounts and contributions receivable. Investments held with the University of Louisville Foundation, Inc. decreased $11.4 million due to payment of a contractual obligation paid to the former athletic director and one time costs associated with hiring a new coach.

The remaining $269.0 million, or 84% of total assets, is classified as noncurrent. The Association's most significant long-term assets are $218.4 million in net capital assets, $17.4 million in accounts and contributions receivable and $31.6 million in restricted cash. Noncurrent assets increased $10.9million compared to the prior year, mainly due to construction expanding the stadium of $47.1 million, offset by the reduction of restricted cash of $23.5 million and accounts and contributions receivable of $7.3 million. The reduction of restricted cash and receivables are both related to the stadium construction.

Liabilities

Current liabilities were $61.1 million, or 33% of total liabilities, at June 30, 2018, representing an increase of $1.6 million compared to the prior year. The increased current liabilities consists mainly of construction payables included in accounts payable and accrued liabilities offset by a note payable that was refinanced during 2018 and is now included as a long term liability.

Noncurrent liabilities were $123.8 million, or 67% of total liabilities, at June 30, 2018. The most significant noncurrent liability consists of $106.5 million in interest-free and interest bearing loans from the University and the Foundation in noncurrent liabilities. These loans relate to the construction of the Stadium, Cardinal Park and the Academic Center. Noncurrent liabilities increased $8.6 million, or 5%, when compared to the prior year, due mainly to refinancing of a note payable that was included as a current liability as of June 30, 2017.

The University adopted new accounting requirements for other post-employment benefits, as further described in the footnotes to the financial statements, that result in an additional liability of $2.7 million.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Association reports deferred outflows and inflows of resources, which represent a consumption or acquisition of net position that applies to future periods. The Association recognizes the fair market value of a financial derivative related to outstanding debt in other long-term assets or other long-term liabilities. The derivative is considered to be effective in the reduction of risk, so the change in their fair market value is shown as a deferred outflows or inflows of resources. In total, the fair market value related to the derivative increased by $203 thousand, with the fair value of the interest rate swap changing from a deferred outflow to a deferred inflow as of June 30, 2018.

The Association reports as deferred outflows of resources the loss on refunding of the bonds related to the Stadium, and Other Post Employment Benefits, with a balance of $1.6 million as of June 30, 2018.

The Association reports as deferred inflow of resources the future benefit for payment received for a service concession arrangement, fair market value of derivatives, and Other Post Employment Benefits, with a balance of $1.3 million as of June 30, 2018.

Net Position

Total net position of $137.1 million as of June 30, 2018 is reported in the following categories: net investment in capital assets, $124.8 million (91%); restricted-nonexpendable, $1.6 million (1%); restricted-expendable, $28.4 million (21%); and unrestricted, $(17.7) million.

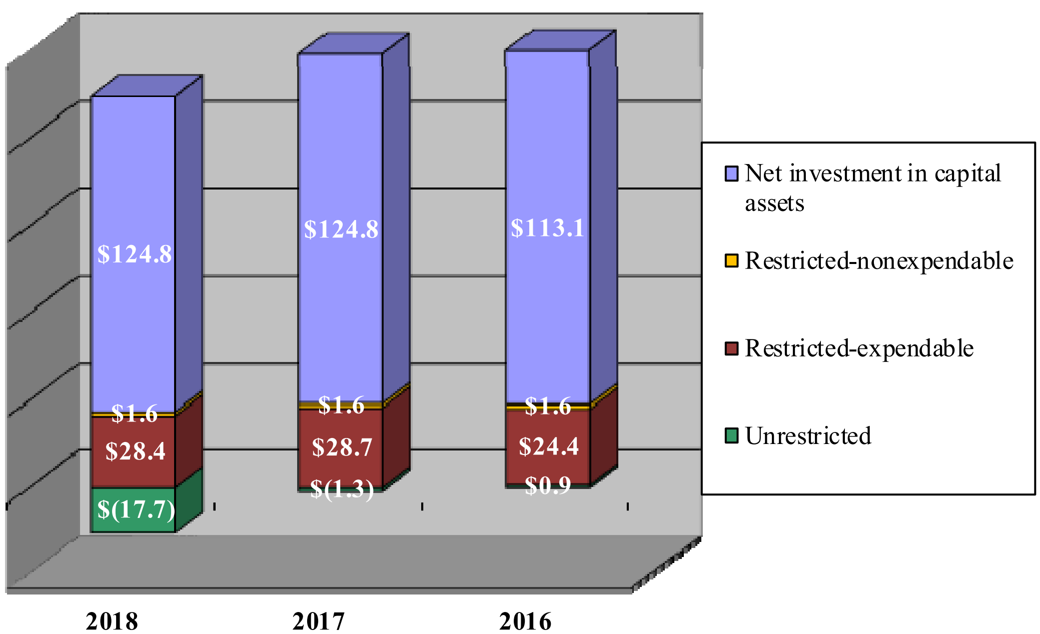
Net investment in capital assets primarily represents the net investment in the Stadium. Capital assets are offset by the $5.7 million of depreciation expense recognized during the year.

Restricted-nonexpendable net position includes amounts that are subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. The Association's restricted-nonexpendable net position consists of permanent endowment for scholarships. The restricted-expendable net position of the Association consists of amounts subject to externally imposed restrictions from donors, debt instruments, and other contractual obligations that govern their use.

Unrestricted net position decreased $16.3 million as compared to the prior year. The decrease is due to the adoption of GASB 75 and an operating loss.

A graphic illustration of net position as of June 30, 2018, 2017, and 2016 is as follows:

Net Position
June 30, 2018, 2017, and 2016



Fiscal Year 2017

Total assets at June 30, 2017 were $327.6 million, an increase of $47.5 million compared to the $280.1 million as of June 30, 2016. Current assets decreased $8.5 million compared to the prior year, attributable to the net decrease in cash and cash equivalents.

Liabilities at June 30, 2017 were $174.7 million as compared to $140.4 million as of June 30, 2016. The increase was related to amounts held for advanced ticket sales and sponsorship due to the timing of receiving payments for the 2017/2018 men's basketball season tickets and notes payable for the Stadium and other capital projects.

Deferred outflows of resources represent the unamortized portion of the loss on refinancing of the debt associated with the Stadium and the negative position of the interest rate swap on outstanding debt of the Association. The change from the prior year is due to the amortization of the loss over the remaining life of the debt and the recognition of the change to the negative position of the swap derivative. Deferred inflows of resources at June 30, 2017 of $1.0 million relate to the fair market value of the derivative associated with the Association's debt that is still in a positive position.

Net position at June 30, 2017 was $153.7 million, an increase of $13.8 million over the June 30, 2016 net position. The majority of the increase is due to an increase in net investment in capital assets of $11.7 million.

The adoption of new accounting requirements for other post-employment benefits resulted in the restatement of opening unrestricted net position as of July 1, 2017 by a reduction of $2.5 million.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position 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 position for the years ended June 30, 2018, 2017 and 2016 are as follows:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - Change	2017 - 2016 Change
OPERATING REVENUES					
Sports	$ 61,722	$ 57,976	$ 56,830	$ 3,746	$ 1,146
Other operating revenues	14,769	14,780	14,505	(11)	275
Total operating revenues	76,491	72,756	71,335	3,735	1,421
OPERATING EXPENSES					
Sports	67,281	60,881	60,382	6,400	499
Other operating expenses	45,841	37,701	34,410	8,140	3,291
Depreciation	5,746	5,597	5,175	149	422
Total operating expenses	118,868	104,179	99,967	14,689	4,212
Operating loss	(42,377)	(31,423)	(28,632)	(10,954)	(2,791)
NONOPERATING REVENUES (EXPENSES)					
Gifts	29,320	45,356	38,608	(16,036)	6,748
Net realized and unrealized (loss)/gain on investments	248	49	(4,710)	199	4,759
Investment returns	150	73	215	77	(142)
Other nonoperating expenses	(1,706)	(691)	(2,415)	(1,015)	1,724
Contributions (to)/from related entities	260	387	(902)	(127)	1,289
Net nonoperating revenues	28,272	45,174	30,796	(16,902)	14,378
Increase in net position	(14,105)	13,751	2,164	(27,856)	11,587
NET POSITION					
Net position-beginning of year	153,724	139,973	137,809	13,751	2,164
Cumulative effect of change in accounting principle	(2,529)	-	-	(2,529)	-
Net position-end of year	$ 137,090	$ 153,724	$ 139,973	(16,634)	$ 13,751

Operating Revenues

Total operating revenues were $76.5 million and $72.8 million for the years ended June 30, 2018 and 2017, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised $61.7 million, or 81% of total operating revenues for the year. Other operating revenues amounting to $14.8 million for each of the years ended June 30, 2018 and 2017, respectively, and include revenues from sources such as concession sales, parking and facilities rentals, and media contracts. Operating revenues increased $3.7 million, or 5%, due mainly to revenues generated from the football program.

Operating Expenses

Total operating expenses were $118.9 million and $104.2 million for the years ended June 30, 2018 and 2017, respectively. For the year ended June 30, 2018, expenses consist mainly of $67.3 million, or 57%, in direct sports-related expenses. The remaining $51.6 million in operating expenses consist mainly of support services of $13.1 million, marketing and development of $6.0 million, and administrative expenses of $10.8 million, of which $2.5 million is for academic counseling and student medical expense. The depreciation expense of $5.7 million is associated primarily with the Stadium.

Total operating expenses increased by $14.7 million, or 14%, in the current year due to increased football and basketball expenses, and an overall increase in indirect support operating expenses, which consists primarily of increased salaries and benefits and enhancements in recruiting software and student nutrition.

Operating Loss, Nonoperating Revenues, and Net Position

The Association's loss from operations amounted to $42.4 million and $31.4 million for the years ended June 30, 2018 and 2017, respectively. During the fiscal year ended June 30, 2018, the operating loss was offset by the $28.3 million in nonoperating revenues and capital gifts, leaving a decrease in net position of $14.1 million, compared to the $13.8 million increase in net position realized during the fiscal year ended June 30, 2017.

Overall, nonoperating revenues decreased 37%. Capital gifts decreased $16.0 million as the capital campaign to raise funds for the stadium expansion completed in fiscal year 2017. During the current fiscal year, the Association had a net realized and unrealized gain of $0.2 million compared to a net gain of only $49 thousand in the prior year. This increase is a result of gains from endowment liquidations transferred to operations.

Fiscal Year 2017

The Association's loss from operations amounted to $31.4 million and $28.6 million for the years ended June 30, 2017 and 2016, respectively. During the fiscal year ended June 30, 2017, the operating loss was offset by the $45.2 million in nonoperating revenues leaving an increase in net position of $13.8 million. This is an increase of $11.6 million as compared to the $2.2 million increase in net position realized during the fiscal year ended June 30, 2016.

Overall, nonoperating revenues increased $14.4 million, or 47%. Contributions from related entities increased $1.3 million. Capital gifts increased $7.2 million. During the 2017 fiscal year, the Association had a net realized and unrealized loss of $50 thousand compared to a net loss in the prior year of $4.7 million. This decrease is a result of the market value of the investments held with the Foundation.

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 financing, capital financing and investing activities.

A summary of the Association's cash flow activity for the years ended June 30, 2018, 2017, and 2016 is shown below:

Condensed Statements of Cash Flows
Years ended June 30, 2018, 2017, and 2016
(In Thousands)

	2018	2017	2016	2018 - 2017 Change	2017 - 2016 Change
Cash (used)/provided by:					
Operating activites	$ (30,162)	$ (32,517)	$ (23,054)	$ 2,355	$ (9,463)
Noncapital financing activities	37,659	112,579	30,468	(74,920)	82,111
Capital financing activities	(39,230)	(43,781)	(2,386)	4,551	(41,395)
Investing activities	1,174	1,427	(2,282)	(253)	3,709
Net increase/(decrease) in cash and cash equivalents	(30,559)	37,708	2,746	(68,267)	34,962
Cash and cash equivalents, beginning of year	85,744	48,036	45,290	37,708	2,746
Cash and cash equivalents, end of year	$ 55,185	$ 85,744	$ 48,036	$ (30,559)	$ 37,708

Operating Activities

The Association's cash and cash equivalents decreased by $30.6 million during the year, mostly due to the use of cash for construction projects. The Association experienced a net outflow of $30.2 million in cash paid for operations, a decreased outflow of $2.3 million from the fiscal year ended June 30, 2017. The improvement in cash used by operating activities relates to reduced payments to employees and suppliers during fiscal year 2018.

Other Activities

Cash provided by noncapital and related financing activities of $37.7 million offset the cash used by operating activities. These cash flows consist primarily of $34.4 million in gifts received to support the sports programs. Cash used by capital financing activities of $39.2 million relates mainly to the $11.0 million of cash used for principal and interest payments on long-term liabilities offset by proceeds of $9.6 million in new debt and the $38.2 million of cash used to purchase capital assets which primarily includes the stadium expansion and construction of the ACC production studio.

Cash provided by investing activities was $1.2 million, a decrease from the $1.4 million in the prior year. During the prior year, the Association liquidated a portion of investments held with the Foundation to fulfill planned contractual obligations.

Fiscal Year 2017

The Association's cash and cash equivalents increased by $37.7 million during the year, mostly due to the increase in restricted cash for construction projects. The Association experienced a net outflow of $32.6 million in cash paid for operations, an increase of $9.5 million from the fiscal year ended June 30, 2016. Other athletic program receipts increased $5.9 million.

Cash provided by noncapital and related financing activities of $112.6 million offset the cash used by operating activities. These cash flows consist primarily of $45.4 million in gifts received to support the sports programs. Cash used by capital financing activities relates mainly to the $42.2 million of cash used for principal and interest payments on long-term liabilities and the $16.2 million of cash used to purchase capital assets.

Cash provided by investing activities was $1.4 million, a decrease from the $2.3 million provided in the prior year. During the prior year, the Association liquidated a portion of investments held with the Foundation to support the University and fulfill planned contractual obligations.

Economic Factors that May Affect Future Periods

The Association's Board of Directors approved a balanced operating budget for the 2019 fiscal year that includes goals for enhancing the student athlete experience and completion of the television production facility. The balanced budget calls for $108 million in revenues and expenses, a 3% increase over the original 2018 fiscal year budget of $105 million. The budget includes an increase in football revenue of 10%, due primarily to an increase in the number of games as well as game guarantees. Marketing revenue is increasing more than 40% due to payments from Adidas under a new long term contract. Sports expense operating budgets increased $1.8 million, from $54 million budgeted for the 2018 fiscal year, due primarily to changes in men's basketball.

The Association anticipates a brief pause in large capital construction projects with the completion of both the ACC Network production studio and expansion of Cardinal Stadium. The focus will shift to enhanced capital replacement and deferred maintenance of existing facilities. The Association continues to work closely with conference administration on issues impacting both the conference and the industry.

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 Position
As of June 30, 2018 and 2017
(In Thousands)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 23,544	$ 30,556
Deposits with bond trustee	-	47
Accounts and contributions receivable, net	12,319	13,298
Inventory	2,610	-
Investments held with University of Louisville Foundation, Inc.	13,884	25,280
Other assets	276	267
Total current assets	52,633	69,448
Noncurrent Assets:		
Restricted cash	31,641	55,188
Accounts and contributions receivable, net	17,440	24,705
Other long-term investments	1,358	1,558
Other long-term assets	184	-
Capital assets, net	218,424	176,676
Total noncurrent assets	269,047	258,127
Total assets	321,680	327,575
DEFERRED OUTFLOWS OF RESOURCES	1,566	1,679
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	18,795	9,510
Unearned compensation and wages payable	320	1,349
Advances	33,992	34,633
Due to University of Louisville	4,938	3,220
Bonds and note payable	3,013	10,737
Total current liabilities	61,058	59,449
Noncurrent Liabilities:		
Due to University of Louisville	106,497	104,284
Due to University of Louisville Foundation, Inc.	316	316
Unearned compensation and wages payable	2,201	4,688
Note payable to University of Louisville	1,000	1,000
Advances	3,027	3,282
Other long-term liabilities	4,182	1,654
Bonds and note payable	6,613	-
Total noncurrent liabilities	123,836	115,224
Total liabilities	184,894	174,673
DEFERRED INFLOWS OF RESOURCES	1,262	857
NET POSITION		
Net investment in capital assets	124,765	124,758
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,633	1,633
Expendable		
Scholarships and fellowships	2,877	869
Institutional support	3,561	3,239
Capital projects	428	-
Debt service	21,502	24,573
Unrestricted	(17,676)	(1,348)
Total net position	$ 137,090	$ 153,724

See notes to the financial statements

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
OPERATING REVENUES		
Sports:		
Basketball	$ 21,814	$ 21,236
Football	37,660	35,055
Other sports	2,248	1,685
Total sports	61,722	57,976
Papa John's Cardinal Stadium	1,389	1,229
Marketing & development	9,643	9,090
Administration	670	1,586
Support services	1,170	1,136
Other operating revenues	1,897	1,739
Total operating revenues	76,491	72,756
OPERATING EXPENSES		
Sports:		
Basketball	19,544	14,145
Football	22,407	21,604
Other sports	25,330	25,132
Total sports	67,281	60,881
Papa John's Cardinal Stadium	1,892	1,505
Marketing & development	6,020	8,158
Administration	10,779	7,231
Support services	13,081	10,547
Game management/facilities operations	3,137	3,238
Depreciation	5,746	5,597
Other operating expenses	10,932	7,022
Total operating expenses	118,868	104,179
Operating loss	(42,377)	(31,423)
NONOPERATING REVENUES (EXPENSES)		
Gifts	28,927	28,524
Investment returns	150	73
Net realized and unrealized (loss)/gain on investments	248	49
Interest on capital related debt	(320)	(920)
Other nonoperating (expenses)/revenues	(1,386)	229
Net nonoperating revenues	27,619	27,955
Capital gifts	393	16,832
Contributions (to)/from related entities	260	387
Total other revenues	28,272	45,174
Increase in net position	(14,105)	13,751
NET POSITION		
Net position-beginning of year	153,724	139,973
Cumulative effect of change in accounting principle	(2,529)	-
Net position-end of year	$ 137,090	$ 153,724

See notes to the 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, 2018 and 2017
(In Thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Ticket sales	$ 28,528	$ 23,440
NCAA/Conference distributions	29,991	26,855
Payments to suppliers	(51,486)	(34,912)
Payments to employees	(34,620)	(42,827)
Payments for utilities	(27)	(24)
Payments for benefits	(8,199)	(7,526)
Payments for scholarships and fellowships	(14,209)	(15,310)
Other athletic program receipts	19,860	17,787
Net cash used by operating activities	(30,162)	(32,517)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts	34,397	27,516
Contributions to/from related entities	4,191	84,975
Other payments	(929)	88
Net cash provided by noncapital and related financing activities	37,659	112,579
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts received	380	10,769
Proceeds from notes payable	9,626	-
Purchases of capital assets	(38,226)	(16,225)
Principal paid on bonds and notes payable	(10,737)	(42,220)
Interest paid on bonds and notes payable	(320)	(1,812)
Deposits with bond trustee	47	5,707
Net cash used by capital financing activities	(39,230)	(43,781)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	674	853
Sale (purchase) of investments	200	428
Interest on investments	300	146
Net cash provided by investing activities	1,174	1,427
Net increase/(decrease) in cash and cash equivalents	(30,559)	37,708
Cash and cash equivalents - beginning of year	85,744	48,036
Cash and cash equivalents - end of year	$ 55,185	$ 85,744
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (42,377)	$ (31,423)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	5,746	5,597
Loss on disposal of equipment	9	2
Change in assets and liabilities:		
Accounts and contributions receivable, net	(1,226)	(303)
Investments held with University of Louisville Foundation, Inc.	10,823	-
Other assets	(9)	647
Accounts payable and accrued liabilities	226	985
Advances	506	(4,142)
Unearned compensation and wages payable	(3,516)	(3,543)
Other long-term liabilities	(344)	(337)
Net cash used by operating activities	$ (30,162)	$ (32,517)
SUPPLEMENTAL CASH FLOW INFORMATION		
Capital asset additions in accounts payable	$ 12,707	$ 3,430

See notes to the financial statements

1. Basis of Presentation and Summary of Significant Accounting Policies

The University of Louisville Athletic Association, Inc. (Association) (a Kentucky nonprofit 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 accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB). The financial statements of the Association have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from nonexchange transactions are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used externally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The Association first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The financial statements of the Association can be found at the following:
http://louisville.edu/finance/controller/univacct/finst-1

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

Deposits with bond trustees consist of cash and investments in governmental securities. Investments in governmental securities are stated at fair value.

d. Accounts and 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.

Accounts receivable consist of charges and reimbursements for services provided to students, faculty, staff and external entities. Accounts receivable are recorded net of uncollectible amounts.

e. Inventories

Inventories are valued at the lower of cost or market, under the first-in, first-out method.

f. Investments

Investments are stated at current fair 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 has a standing policy (the spending policy) of appropriating for expenditure each year a percentage of certain endowment funds' average market values over the prior three years through the calendar year-end preceding the year in which expenditure is planned. The Foundation will adjust the spending policy for a given year to mitigate adverse market performance on the level of support provided to the University. In March 2017, the Board of the Foundation approved reducing the spend policy from 5.5% to 4.09% for fiscal year 2018 for support to the academic units, including the Association.

The Association purchased insurance annuity policies to fund deferred compensation arrangements as stipulated by the arrangements. These are classified as other long-term investments in the summary of net position.

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 consolidated statements of financial position and the Association's statements of net position.

g. Capital Assets

Capital assets are stated principally at cost, if purchased, or at estimated acquisition 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; land improvements – 40 years; equipment – 3-15 years; and leasehold improvements – 20 years.

Prior to the period ending June 30, 2017, The Association capitalized interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. The Association elected to early adopt GASB statement No. 89 *Accounting for Interest Incurred Before the End of a Construction Period*. A description of the statement is located at item q in Note 1. Total interest incurred for the years ended June 30, 2018 and 2017 was $320 thousand and $920 thousand, respectively. There was no interest capitalized in 2018 or 2017.

h. Deferred Outflows and Inflows of Resources

In accordance with GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, the Association reports deferred outflows of resources, deferred inflows of resources and net position in its statements of net position and related disclosures.

Deferred outflows of resources of $1.6 million and $1.7 million for the years ended June 30, 2018 and 2017, respectively, consist of loss on bond refinancing of $1.4 million and other post-employment benefits of $0.2 million as of June 30, 2018 and loss on bond refinancing of $1.7 million and the fair value of derivatives of $0.02 million as of June 30, 2017. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred outflows of resources. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense using the effective interest method over the remaining life of the refinanced debt. Deferred outflows of resources related to other post-employment benefits consist of payments to be made in future periods.

Deferred inflows of resources of $1.3 million as of June 30, 2018 consist of service concession arrangements of $0.7 million, fair value of derivatives of $0.2 million and changes in the other post-employment benefits liability of $0.4 million. Deferred inflows of resources of $0.9 million as of June 30, 2017 consist of service concession arrangements. As the derivatives are considered effective hedging instruments, changes in the fair value of derivatives are recognized as deferred inflows of resources. Changes in the other post-employment benefits deferred inflow will be recognized in future periods.

It is not practical for the Association to determine the amounts of all deferred inflows of resources and deferred outflow of resources related to implementation of changes in accounting for other post-retirement benefits as of the beginning of the fiscal year. As a result, the prior year has not been restated for deferred inflows of resources, deferred outflows of resources, net other post-employment benefit liability and expense. Since the restatement of the prior year presented is not practical, the cumulative effect of applying this Statement is reported as a restatement of beginning net position as of July 1, 2017.

i. Unearned Compensation Expenses

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

j. 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 when 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 position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

k. Advances

Advances, which consist primarily of amounts received from individual and season ticket holders for subsequent year intercollegiate athletic activities, suite rentals, parking revenue, and sponsorships, was approximately $37.0 million and $37.9 million at June 30, 2018 and 2017, respectively. Such advances are recognized over the term of the related athletic activities.

l. Net Position

The net position of the Association is classified in three components. Net investment in capital assets consists 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 position is subject to externally imposed restrictions that require the Association to maintain the assets in perpetuity. Restricted-expendable net position consists of 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 position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

m. 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.

n. Net Bond Premium

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

o. 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 and state income tax on any unrelated business taxable income.

p. 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, liabilities, and deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

q. Reclassifications

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. The reclassifications more accurately represent revenue and expense activities in the categories presented on the statement of revenues, expense and changes in net position. These reclassifications had no effect on the change in net position.

r. Recent Accounting Pronouncements and Restatement

As of June 30, 2018, the following GASB statements were implemented which had a financial or disclosure impact on the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Implementation of this Statement required adjustments to the Statement of Net Position reported as of June 30, 2017 by reflecting the cumulative effect of change in accounting principle.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The university elected to early adopt the statement and discontinue capitalization of interest related to the construction of capital assets.

As of June 30, 2018, the following GASB statements were implemented which did not have a financial or disclosure impact on the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

GASB Statement No. 85, *Omnibus 2017.* The Statement addresses practice issues identified during implementation and application of certain GASB Statements of a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

As of June 30, 2018, the GASB has issued the following statements that could be applicable to the University upon implementation in future reporting periods.

GASB Statement No. 83, *Certain Asset Retirement Obligations.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 84, *Fiduciary Activities.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 87, *Leases.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statements No. 14 and No. 61.* The University has not yet adopted this standard and is evaluating the impact it may have on its financial statements.

2. Cash, Cash Equivalents, and Investments

a. Summary of Carrying Values

The carrying value of deposits and investments are included in the statements of net position as shown on the following page (in thousands):

	2018	2017
Deposits	$ 55,185	$ 85,744
Investments		
U.S. Treasury obligations	-	47
Investments held with the University of Louisville Foundation, Inc.	13,884	25,280
Annuities	1,358	1,558
	$ 70,427	$ 112,629
Included in the following statements of net position captions:		
Cash and cash equivalents	$ 23,544	$ 30,556
Deposit with bond trustee-current	-	47
Restricted cash	31,641	55,188
Investments held with the University of Louisville Foundation, Inc.	13,884	25,280
Annuities	1,358	1,558
	$ 70,427	$ 112,629

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. 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 covered up to the limits of 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.

Other long term investments are insurance annuity policies at June 30, 2018. The Association's investment policy does not address the monitoring of the issuing party.

c. Interest Rate Risk

Interest rate risk is the risk the Association 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.

As of June 30, 2018 and 2017, the Association had no investments subject to interest rate risk, compared to $47 thousand in 2017, which matured during the past year.

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, 2018 and 2017, the $13.9 million and $25.3 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, 2018 and 2017 was as follows:

	2018	2017
Investment in partnerships	53%	60%
Marketable alternatives	22%	13%
Preferred and common stock	4%	13%
Mutual funds	13%	12%
Fixed income	8%	2%
Total	100%	100%

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 effects on the fair value of an investment from changes in exchange rates. The Association had no investments denominated in foreign currency at June 30, 2018 or 2017.

3. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements as prescribed by GASB 72, *Fair Value Measurement and Application*, as of June 30, 2018 and 2017 (in thousands):

	Balance as of 6/30/2018	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
Investments					
US Treasury securities	$ -	$ -	$ -	$ -	$ -
University of Louisville Foundation, Inc. investment fund	13,884	-	-	-	13,884
Investment derivative instruments					
Interest rate swap	184	-	184	-	-
Total investments measured at fair value	$ 14,068	$ -	$ 184	$ -	$ 13,884

	Balance as of 6/30/2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Measured at NAV
Investments					
US Treasury securities	$ 47	$ 47	$ -	$ -	$ -
University of Louisville Foundation, Inc. investment fund	25,280	-	-	-	25,280
Investment derivative instruments					
Interest rate swap	(19)	-	(19)	-	-
Total investments measured at fair value	$ 25,307	$ 47	$ (19)	$ -	$ 25,280

a. Investments

US Treasury securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Governmental obligations classified in Level 2 of the fair value hierarchy are valued using a pricing matrix technique.

b. Investment Derivative Instruments

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using standard pricing models using current forward rate assumptions and/or volatilities to predict cash flows. Investments measured at net asset value (NAV) (in thousands):

	Fair Value as of 6/30/18		Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$	13,884	Various from any valuation day to quarterly	Various from 5 to 90 days

	Fair Value as of 6/30/17		Redemption Frequency	Redemption Notice Period
University of Louisville Foundation, Inc. investment fund	$	25,280	Various from any valuation day to quarterly	Various from 5 to 90 days

Investments within the University of Louisville Foundation, Inc. pooled investment fund consist of money market mutual funds, common and preferred stock, corporate bonds, mutual funds, investments in partnerships, and funds of funds, U.S. Government securities and U.S. agency obligations. The Foundation has adopted a policy of maintaining a diverse investment pool through the use of targeted asset allocation guidelines. The fair value of the investments in the fund have been determined using the NAV per share (or its equivalent) of the investments.

4. 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, 2018 and 2017, 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, 2018 and 2017, the Foundation held funds of the Association of approximately $13.9 million and $25.3 million, respectively, for investment purposes.

c. Debt with Related Entities

As of June 30, 2018 and 2017, the Association has noninterest bearing debt with no specific repayment terms of approximately $9.2 million 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 and to $0.6 million of expenditures incurred during fiscal years 2003 and 2004 related to the Wright Natatorium.

In April 2016, the Association received a $15.0 million unsecured loan bearing interest at 2.5% from the University. The Association is obligated to repay the loan in equal semi-annual payments over 20 years. During the years ended June 30, 2018 and 2017, the Association repaid $0.6 million in each respective year. The outstanding loan balance is $13.5 million as of June 30, 2018.

In December 2016, the University issued $27.6 million of University of Louisville, General receipts Bonds, 2016 Series F, which the proceeds along with debt service reserve funds and existing University funds were used to complete the current refunding of the Association's Louisville/Jefferson County Metro Government Mortgage Revenue Refunding and Improvement Bonds, 2008 Series A and B (mortgage revenue bonds). As a result, the liability for the mortgage revenue bonds, related deposits with bond trustee and derivative repurchase agreement have been removed from the Association's statement of net position. Additionally, the University issued $50.7 million of University of Louisville, General Receipts Bonds, 2016 Series D and E to finance the expansion of Papa John's Cardinal Stadium and athletic training center. The proceeds of the Series D, E and F bonds were loaned to the Association. The Association entered into an agreement with the University for the Association to repay the bonds based on the bond repayment schedules. This liability is stated in current and noncurrent due to University of Louisville and deferred outflow of resources for related loss on refinancing. The outstanding loan balance and related cost due to the University is $81.5 million and $84.2 million as of June 30, 2018 and 2017, respectively.

In May 2018, the Association received $7.2 million from the University which was borrowed under a master lease agreement with a financial institution. The funds were used to finance the construction of a television broadcast and production studio. The Association entered into an agreement with the University for the Association to repay the lease based on the lease repayment schedule. This liability is stated in current liabilities and noncurrent due to University of Louisville. The outstanding loan balance is $7.2 million as of June 30, 2018.

In July 2001, the Association received a $0.3 million 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 $0.3 million as of June 30, 2018 and 2017.

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. During the year ended June 30, 2018, the Association did not make a payment. The outstanding balance was approximately $1.0 million as of June 30, 2018 and 2017.

d. Contributions 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 equality. The University transferred $2.1 million and $2.2 million, respectively, for the years ended June 30, 2018 and 2017 for this purpose. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred $2.0 million and $2.1 million of student fees collected for the years ended June 30, 2018 and 2017, 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 $1.5 million related to capital projects and debt service payments during each of the fiscal years ended June 30, 2018 and 2017, respectively.

Additionally, the Association transferred $0.4 million and $1.4 million to the University for the years ended June 30, 2018 and 2017, respectively, related to other transactions and support of University endeavors.

During the fiscal years ended June 30, 2018 and 2017, the Association transferred $0.4 million and $0.9 million, respectively, to the Foundation to support the operations of the golf facility owned by the Foundation. This transfer is recorded in other nonoperating expenses and revenues.

5. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2018 and 2017 are as follows (in thousands):

2018	Gross	Allowance	Net
Trade receivables	$ 7,875	$ -	$ 7,875
Contributions receivable	33,384	(10,572)	22,812
Total	$ 41,259	$ (10,572)	30,687
Less: Discount			928
Current portion			12,320
Non current portion			$ 17,439

2017	Gross	Allowance	Net
Trade receivables	$ 5,949	$ -	$ 5,949
Contributions receivable	38,049	(5,232)	32,818
Total	$ 43,998	$ (5,232)	38,767
Less: Discount			764
Current portion			13,298
Non current portion			$ 24,705

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 5.2%.

Contributions receivable as of June 30, 2018 and 2017 are due to be received as follows (in thousands):

	2018	2017
Less than one year	$ 11,016	$ 11,326
One to three years	12,445	14,240
Greater than three years	9,923	12,483
Subtotal	33,384	38,049
Less: discount	(928)	(764)
Less: allowance	(10,572)	(5,232)
Net contributions receivable	$ 21,884	$ 32,054

6. Capital Assets, Net

Capital assets as of June 30, 2018 and 2017 are shown below and on the following page (in thousands):

	2018				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Cost-Nondepreciable					
Land	$ 5,151	$ -	$ -	$ -	$ 5,151
Construction in progress	14,897	47,147	-	(369)	61,674
Subtotal	20,048	47,147	-	(369)	66,825
Cost-Depreciable					
Buildings	204,877	115	-	369	205,361
Land improvements	3,827	-	-	-	3,827
Equipment	3,298	242	(69)	-	3,471
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	213,301	357	(69)	369	213,958
Total capital assets-cost	233,349	47,503	(69)	-	280,783
Accumulated depreciation					
Buildings	53,170	5,181	-	-	58,351
Land improvements	626	132	-	-	758
Equipment	2,034	375	(60)	-	2,349
Leasehold improvements	843	58	-	-	901
Subtotal	56,673	5,746	(60)	-	62,359
Capital assets, net	$ 176,676	$ 41,757	$ (9)	$ -	$ 218,424

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Cost-Nondepreciable					
Land	$ 5,151	$ -	$ -	$ -	$ 5,151
Construction in progress	17,229	15,614	-	(17,947)	14,897
Subtotal	22,380	15,614	-	(17,947)	20,048
Cost-Depreciable					
Buildings	186,200	730	-	17,947	204,877
Land improvements	3,754	73	-	-	3,827
Equipment	2,893	473	(68)	-	3,298
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	194,146	1,276	(68)	17,947	213,301
Total capital assets-cost	216,526	16,890	(68)	-	233,349
Accumulated depreciation					
Buildings	48,090	5,080	-	-	53,170
Land improvements	495	131	-	-	626
Equipment	1,772	328	(66)	-	2,034
Leasehold improvements	785	58	-	-	843
Subtotal	51,142	5,597	(66)	-	56,673
Capital assets, net	$ 165,384	$ 11,293	$ (2)	$ -	$ 176,676

7. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2018 and 2017 are summarized as shown below and on the following page (in thousands):

	2018				
	Beginning Balance	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Term loan, variable interest rate of 1.3% as of June 30, 2014. Secured by revenue and pledges of the Project. Final maturity in 2018	$ 10,737	$ (10,737)	$ -	$ -	$ -
Term loan, variable interest rate of 3.1% as of June 30, 2018. Secured by revenue and pledges of the Project. Final maturity in 2022	-	9,626	9,626	3,013	6,613
Total bonds payable	10,737	(1,111)	9,626	3,013	6,613
Plus unamortized net premium	-	-	-	-	-
Bonds payable, net	$ 10,737	$ (1,111)	$ 9,626	$ 3,013	$ 6,613

	2017 Beginning Balance	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008A Interest rates of 3.5% to 5.0% Final maturity in 2018	$ 10,540	$ (10,540)	$ -	$ -	$ -
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.5% to 4.8% Final maturity in 2028	29,460	(29,460)	-	-	-
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	397	(397)	-	-	-
Term loan, variable interest rate of 1.3% as of June 30, 2013. Secured by revenue and pledges of the Project. Final maturity in 2018	11,967	(1,230)	10,737	10,737	-
Total bonds payable	52,364	(41,627)	10,737	10,737	-
Plus unamortized net premium	(68)	68	-	-	-
Bonds payable, net	$ 52,296	$ (41,559)	$ 10,737	$ 10,737	$ -

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

For the Year Ended June 30	Principal	Interest	Total
2019	$ 3,013	$ 278	$ 3,291
2020	2,957	191	3,148
2021	2,122	105	2,227
2022	1,534	44	1,578
Total	$ 9,626	$ 618	$ 10,244

Association revenue is pledged for the payment of the term loan excluding approximately $2.0 million annually, which was available for amounts owed by the Association under the Arena lease agreement. For the current year, principal and interest paid by the Association and the total pledged revenue recognized were $1.4 million and $101.7 million, respectively.

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

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%. 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 Mortgage Revenue Bonds were currently refunded by the issuance of General Receipts Bonds 2016, Series F and as a result the liability for the prior bonds has been removed from the Association's statement of net position.

The Foundation was the guarantor of the Mortgage Revenue Bonds, and as such agreed to maintain a balance of available cash sufficient enough to cover the next debt service payment. The guarantee was released at the time the Mortgage Revenue Bonds were refunded.

Term Loan

In June 2014, the Association entered into a $15.0 million Term Loan with a national banking association. The proceeds were used to partially finance the renovation of the baseball and softball stadiums and the construction of a soccer stadium (the Project). The loan is secured by collateral, including funds and revenues of the Association from the Project and third-party pledges to the Association for the Project. The variable interest rate on the Term Loan is the Daily One Month LIBOR rate plus 1.14%, reset on the last day of each month. This term loan was refinanced in June 2018 and replaced with a $9.6 million term loan with substantially the same terms. The interest rate on the new note is the daily one month LIBOR rate plus 100 basis points. The note contains a covenant that states the Association must maintain $10 million of unrestricted cash or investments.

8. Derivative Financial Instruments

a. Summary

At June 30, 2018, the Association has the following derivative instruments outstanding (in thousands):

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Fair Value
Pay-fixed interest rate swap	Hedge of changes in cash flows on the Term Loan	$ 15,000	06/28/13	06/30/22	Pay 2.9%; receive LIBOR + 1.14%	$ 184

The fair value of the Interest Rate Swap was determined using the market's current forward rate assumptions in order to predict future cash flows on the floating side and is included in other long-term assets on the statements of net position. As the Interest Rate Swap is an effective hedging instrument, the offsetting balance is reflected as deferred outflows of resources on the Association's statements of net position. For the year ended June 30, 2018, the increase in fair value of the Interest Rate Swap was approximately $203 thousand. No initial cash receipt or payment was made in relation to the Interest Rate Swap. The Association receives or pays a net amount monthly and includes the monthly settlement amount in interest expense.

b. Credit Risk

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2018. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Association has a maximum possible loss equivalent to the Interest Rate Swap's fair value at that date. At June 30, 2018, the counterparty to the Interest Rate Swap had a credit rating of A3 from Moody's Investors Services.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair values of the Association's financial instruments or cash flows. The fair market values of the derivative instruments are expected to fluctuate over the life of the agreement in response to changes in interest rates. The Association does not have a formally adopted policy related to interest rate risk related to derivative instruments.

d. Termination Risk

The Association or the counterparty may terminate the Interest Rate Swap if the other party fails to perform under the terms of the contract. The contract also provides for other termination events, including if the Term Loan matures, expires, is terminated or cancelled, or changes lenders. If the Interest Rate Swap terminates early and the Association is the defaulting party, the Association would be liable for the losses, if any, of the counterparty.

9. Other Liabilities

Other liabilities as of June 30, 2018 and 2017 are summarized as shown below (in thousands):

	2018					
	Beginning Balance (as restated)	Additions	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville	$ 107,504	$ 4,540	$ (609)	$ 111,435	$ 4,938	$ 106,497
Due to University of Louisville Foundation Inc.	316	-	-	316	-	316
Unearned compensation and wages payable	6,037	$ 433	$ (3,949)	2,521	$ 320	2,201
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Advances	37,913	(451)	(443)	37,019	33,992	3,027
Other postemployment benefits	4,431	-	(249)	4,182	-	4,182
Total	$ 157,201	$ 4,522	$ (5,250)	$ 156,473	$ 39,250	$ 117,224

	2017					
	Beginning Balance	Additions	Retirement	Ending Balance	Current Portion	Noncurrent Portion
Due to University of Louisville	$ 23,873	$ 84,216	$ (585)	$ 107,504	$ 3,220	$ 104,284
Due to University of Louisville Foundation Inc.	316	-	-	316	-	316
Unearned compensation and wages payable	9,581	952	(4,496)	6,037	1,349	4,688
Note payable to University of Louisville Foundation, Inc.	1,000	-	-	1,000	-	1,000
Advances	43,319	(4,572)	(832)	37,913	34,633	3,282
Other long-term liabilities	1,972	(51)	(18)	1,903	248	1,655
Total	$ 80,061	$ 80,545	$ (5,931)	$ 154,673	$ 39,450	$ 115,224

Other long-term liabilities as of June 30, 2018 and 2017 consist of future expenses required by certain pledge agreements and the fair value of certain derivatives. The current portion of other postemployment benefits and other long-term liabilities is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2017.

10. Natural Classification

Operating expenses by natural classification for the years ended June 30, 2018 and 2017 were approximately (in thousands):

	2018	2017
Salaries and Wages	$ 39,834	$ 40,526
Employee Benefits	7,821	7,173
Supplies and Services	50,222	35,753
Scholarships and Fellowships	15,218	15,106
Utilities	27	24
Depreciation	5,746	5,597
Total	$ 118,868	$ 104,179

11. Retirement Plan

Association and University personnel participate in a contributory retirement plan administered by the University. The University of Louisville 403(b) Retirement Plan (Retirement Plan) was established by the University and approved by the Board of Trustees. Permanent, full-time employees become eligible to participate in a defined contribution plan upon completion of one year's service and attainment of age 21. Eligible employees not contributing to the Retirement Plan are entitled to a 7.5% of base salary contribution on their behalf by the University. The University also matches up to an additional 2.5% of employee contributions. The Retirement Plan requires three years of continuous service for employees to vest in employer contributions.

The Association recorded expenses related to the defined contribution plan of approximately $2.0 million and $2.0 million for the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Association had no outstanding liability related to the Retirement Plan.

12. Postemployment Healthcare Benefits

a. Plan Description

University and Association personnel are eligible for postemployment healthcare benefits as described in The University of Louisville Group Health Plan (Plan), administered by the University. The Plan is a single-employer plan and the University's Board of Trustees determines the eligibility requirements related to the Plan. The Plan does not issue stand-alone financial reports and is not included in the report of any entity.

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.

At July 1, 2017, the following employees were covered by the benefit terms.

Inactive plan members	1,441
Active plan members	5,546
Total	6,987

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. The contribution requirements of the contributing members are determined by the University's management on an annual basis. During the years ended June 30, 2018 and 2017, the University contributed approximately $3.3 million and $3.0 million to the Plan, approximately 80% and 78% of total premiums, respectively; of the University's contribution, $0.2 million and $0.1 million was attributed to the Association. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million and $0.9 million, approximately 20% and 22% of total premiums for the years ended June 30, 2018 and 2017, respectively, through their required monthly contributions according to the schedules below:

2018	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

2017	PPO	EPO	PCA High	PCA Low
Employee	$ 335	$ 353	$ 281	$ 248
Employee and Spouse	$ 811	$ 851	$ 692	$ 555

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2018 and 2017, the University contributed $1.9 million and $1.7 million for Medicare-eligible retirees, respectively.

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

The University's total OPEB liability was measured by an actuarial valuation as of June 30, 2017. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation	3.58%
Salary Increases	5.00%, average
Investment rate of return	NA
Healthcare cost trend rates	8.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 4.5% for 2026 and later years

The investment rate of return is shown as not applicable (NA) since the University contributes only the amount necessary to pay current benefits. The discount rate is 3.5% as of the Measurement Date, 2.85% as of the beginning of the Measurement Period.

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):

		Total OPEB Liability
Balances at 6/30/2017	$	92,022
Changes for the year:		
Service cost		5,203
Interest		2,728
Differences between expected and actual experience		(2,608)
Changes of assumptions		(5,495)
Contributions - employer		-
Net investment income		-
Benefit payments		(3,007)
Administrative expense		-
Net Changes		(3,179)
Balances at 6/30/2018	$	88,843

The following reflects the sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rate. The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.58)%	Discount Rate (3.58)%	1% Increase (4.58)%
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

The schedule below presents the University's OPEB liability, as well as what the University's OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (7.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 3.5% for 2026) or 1 percentage point higher (9.1% for 2017, decreasing 0.4%-0.5% per year to an ultimate rate of 5.5% for 2026) than the current healthcare cost trend rate:

	1% Decrease (7.1% decreasing to 3.5%)	Healthcare Cost Trend Rates (8.1% decreasing to 4.5%)	1% Increase (9.1% decreasing to 5.5%)
Net OPEB liability	$ 96,468	$ 88,843	$ 81,909

For the year ended June 30, 2018 the University recognized OPEB expense of $6,985. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (2,303)
Changes of assumptions	-	(4,854)
Contributions made in fiscal year ending 6/30/2018 after the measurement date of 6/30/2017	3,384	-
Total	$ 3,384	$ (7,157)

The amount reported as contributions after the measurement date included in deferred outflows will be recognized as benefit payments during the following fiscal year.

Amounts reported as differences between expected and actual experience and changes in assumptions included under deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows on the following page:

Year ended June 30:	
2019	$ (947)
2020	(947)
2021	(947)
2022	(947)
2023	(947)
Thereafter	(2,422)

d. Funded Status and Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. The unfunded OPEB liability for benefits was $88.8 million and $92.0 million and there were no assets, resulting in an unfunded net OPEB liability of $88.8 million and $92.0 million as of June 30, 2018 and 2017, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.4 million and $499.0 million, and the ratio of the unfunded net OPEB liability to the covered payroll was 20% and 19%, for the years ended June 30, 2018 and 2017, 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.

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 June 30, 2017, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8.1% initially, reduced by decrements to an ultimate rate of 4.5% after 10 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2018 and 2017 were due to updates made on expected future health claims and an increase in the discount rate from 2.85% as of the beginning of the reporting year to 3.58% as of the measurement date.

13. Leases

a. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of an athletic building. The University's rights under this agreement have been assigned to the Association. The lease has an initial term of 26 years, ending June 30, 2023. Annual lease payments range from $25,000 to $66,550. Total lease expense for each of the years ended June 30, 2018 and 2017 amounted to approximately $61,000.

b. Central Station, LLC

The Association has entered into a lease agreement with AAF-Louisville, LLC (d/b/a Central Station, LLC), a related party, for use of the Central Station Office Building. The lease has an initial term of 21 years, ending September 30, 2026. Annual lease payments started at approximately $47,000, and are subject to increases based on increases in the CPI. Additional space was added, for a period of 10 years, ending December 31, 2024 with annual payments starting at approximately $80,000, subject to increase each year. Total lease expenses during the years ended June 30, 2018 and 2017 amounted to approximately $168,000 and $167,000, respectively.

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.

In July 2017 an amendment of the lease was signed extending the term through 2054 and amending the annual rents due to $2.4 million along with the calculated annual net payment as described below. Annual lease payments are equal to the greater of 10% of gross ticket sales or a minimum lease amount of $10,000 per game for men's basketball games; the greater of 5% of gross ticket sales or a minimum of $5,000 for any other Association sponsored event; and, as payment for private suites, 12% of net private suite revenue. Total lease expense during the years ended June 30, 2018 and 2017 amounted to approximately $6.0 million and $3.4 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during each of the years ended June 30, 2018 and 2017 amounted to approximately $0.5 million each year.

Under the terms of the lease, the Association will receive payments from the Arena Authority as follows: (a) 50% of all payments received from third-party concessionaire and catering sales at all University-sponsored events or 25% of the gross proceeds of any Arena Authority owned concessions or catering sales; (b) 50% of all rental/commission payments received in connection with the gift shop and its operations, and 50% of any additional merchandise revenue received from any source other than the gift shop; (c) 50% 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% 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 years ended June 30, 2018 and 2017 amounted to approximately $1.3 million and $1.4 million, respectively.

d. Christ Church Cathedral

In July 2017 the Association executed an Agreement with Louisville Metro Government for a ground lease of Churchill Park athletic fields for an initial term of fifty years with annual payments of $15 thousand per year begin on July 31, 2018 for the term of the agreement. The Association also executed an agreement to acquire reversionary interest in the properties for an initial payment of $0.3 million and payments of $50 thousand over ten years beginning July 31, 2018.

e. Future Minimum Lease Payments

Future minimum lease payments are as follows (in thousands), subject to change with the new lease:

For the years ending June 30,		**Lease Payment Due**
2019	$	2,721
2020		2,723
2021		2,725
2022		2,726
2023		2,728
2024 - 2028		12,844
2029 - 2033		12,175
2034 - 2038		12,175
2039 - 2043		12,175
2044 - 2048		12,175
2049 - 2053		12,175
2054 - 2058		2,495
2059 - 2063		75
2064 - 2078		60
Future minimum lease payments	$	89,972

14. Commitments and Contingencies

a. Commitments

At June 30, 2018 and 2017, the Association had approximately $8.4 million and $1.5 million, respectively, in encumbrances for future expenditures, the increase related mainly to timing of certain construction project progress payments.

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. Federal Investigation

In September 2017, the University was informed of a federal investigation into the actions of certain University employees and their recruiting practices related to the men's basketball program. No allegations have been made directly against the University at this time. The outcome of the investigation, and any potential impact on the financial position of the Association cannot be estimated at the time of issuance of the audited financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Changes in Total OPEB Liability and Related Ratios
For the Fiscal Year Ending
(in thoudands)

	6/30/2018
Total OPEB liability	
Service Cost	$ 5,203
Interest	2,728
Difference between expected and actual experience	(2,608)
Changes of assumption	(5,495)
Benefit payments	(3,007)
Net change in OPEB Liabiblity	$ (3,179)
OPEB liability - beginning of year	92,022
OPEB liability - end of year	$ 88,843
Covered employee payroll	$ 445,356
Total OPEB liability as a percentage of covered employee payroll	19.95%

This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available.