UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Auditor's Report and Financial Statements
June 30, 2013 and 2012

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Table of Contents:

Page

BKD LLP
CPAs & Advisors
600 N. Hurstbourne Parkway, Suite 350 // P.O. Box 22127 // Louisville, KY 40252-0127
502.581.0435 // fax 502.581.0723 // bkd.com

Independent Auditor's Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements, which are comprised of a statement of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of the University of Louisville Athletic Association, Inc. (Association), a component unit of the University of Louisville.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 Association'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 Association'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013, the Association adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, for reporting deferred outflows and inflows of resources and net position. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

BKD, LLP

Louisville, Kentucky
October 2, 2013

UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

A Component Unit of the University of Louisville

Management's Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Louisville Athletic Association, Inc. (Association) for the years ended June 30, 2013, 2012, and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and related notes, which follow this section.

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

The Association's mission to provide quality intercollegiate athletic programs through a comprehensive sports program requires a major financial commitment of both operating and capital resources. In addition, the Association is committed to achieving athletic excellence for its student-athletes, maintaining National Collegiate Athletic Association (NCAA) compliance, ensuring full implementation of gender equity plans and offering a wide variety of sports and recreational outlets for the University community, alumni, and visitors. During the fiscal year ended June 30, 2013, the University accepted an invitation to the Atlantic Coast Conference, which the Association anticipates joining in July 2014.

During the 2012-2013 athletic season the University became the first to win a BCS Bowl Game, place both its men's and women's basketball teams in the NCAA Final Four, and reach the College World Series all in the same season. The Association continues to support the athletic achievements of the students by expanding and improving the facilities. The Patterson Baseball Stadium was recently renovated, construction has started on the new Dr. Mark and Cindy Lynn Soccer Stadium and the renovation of Ulmer Softball Stadium.

The Association continues to invest in the academic achievement and community involvement of the student athletes. Overall, 355 student-athletes had a 3.0 GPA or higher for the spring 2013 semester and the cumulative GPA for all 23 sports was 3.124, new records for the Association.

Financial Highlights

The Association's financial position at June 30, 2013 is characterized by the following:

- Total assets were $259.5 million, an increase of $12.4 million, or 5%, from June 30, 2012. The most significant increase was in restricted cash, which increased $11.5 million, due mainly to issuance of debt during the year.

- Total liabilities were $140.2 million, an increase of $10.9 million, or 8%, compared to June 30, 2012, due mainly to issuance of $15.0 million of additional debt.

- Net position, which represents the residual interest in assets after liabilities and deferred inflows of resources are deducted, was $118.8 million, an increase of $1.6 million compared to June 30, 2012.

- Operating revenues amounted to $45.9 million and when offset by operating expenses of $80.4 million, an operating loss of $34.5 million resulted. The operating loss was offset by $36.1 million of net nonoperating revenues resulting in an increase in net position of $1.6 million for the year ended June 30, 2013.

- Net nonoperating revenues of $36.1 million consisted of $37.1 million in gifts and $1.2 million in net realized and unrealized gains, offset by $2.7 million of interest on capital related debt and $0.5 million of other net revenue.

As of June 30, 2013, assets exceed liabilities by a ratio of 1.9 to 1. The Association's most significant asset, the Papa John's Cardinal Stadium complex (Stadium), is reflected at its historic cost of $151.7 million less $34.5 million in accumulated depreciation for a net capitalized value of $117.2 million.

Statements of Net Position

The statements of net position present the financial position of the Association at the end of each fiscal year and include all assets, liabilities, and deferred inflow of resources. Net position, the difference between total assets, total liabilities, and total deferred inflow of resources, provides a summary of the current financial condition of the Association at the end of a fiscal year. The change in net position indicates whether the overall financial condition has improved or worsened during the year. Assets, liabilities, and deferred inflow 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, liabilities, deferred inflows of resources, and net position at June 30, 2013, 2012, and 2011 are as follows:

Condensed Statements of Net Position
June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011	2013 - 2012 Change	2012 - 2011 Change
ASSETS					
Current assets	$ 47,546	$ 47,457	$ 45,286	$ 89	$ 2,171
Long-term investments	32,710	37,175	37,239	(4,465)	(64)
Capital assets, net	137,599	134,452	136,021	3,147	(1,569)
Other	41,668	28,057	33,330	13,611	(5,273)
Total assets	259,523	247,141	251,876	12,382	(4,735)
LIABILITIES					
Current liabilities	48,557	45,061	44,505	3,496	556
Noncurrent liabilities	91,664	84,287	90,158	7,377	(5,871)
Total liabilities	140,221	129,348	134,663	10,873	(5,315)
DEFERRED INFLOWS OF RESOURCES	452	552	-	(100)	552
NET POSITION					
Net investment in capital assets	76,984	67,386	62,711	9,598	4,675
Restricted - nonexpendable	1,538	1,421	1,535	117	(114)
Restricted - expendable	27,312	29,301	33,327	(1,989)	(4,026)
Unrestricted	13,016	19,133	19,640	(6,117)	(507)
Total net position	$ 118,850	$ 117,241	$ 117,213	$ 1,609	$ 28

Assets

Current assets of $47.5 million represent 18% of total assets. These assets mainly consist of $36.0 million in cash and cash equivalents, $6.3 million in deposits with bond trustees, and $5.0 million in accounts and contributions receivable. Current assets increased by only $89 thousand, as the $1.5 million increase in cash and cash equivalents was offset by the $1.2 million decrease in accounts and contributions receivable. In the prior year, the Association had $1.5 million outstanding from the NCAA related to hosting a portion of the men's basketball tournament that was paid during the year ended June 30, 2013.

The remaining $212.0 million, or 82% of total assets, is classified as noncurrent. The Association's most significant long-term assets are $137.6 million in net capital assets, $32.7 million in investments held with the University of Louisville Foundation, Inc. (Foundation), $23.4 million in restricted cash and $16.9 million in accounts and contributions receivable. Noncurrent assets increased $12.3 million compared to the prior year, due mainly to an increase in restricted cash. In June 2013, the Association received $15 million in cash from the issuance of a term loan. The cash will be used to fund the ongoing capital projects, including construction of the Dr. Mark and Cindy Lynn Soccer Stadium and the renovations of the Patterson Baseball Stadium and Ulmer Softball Stadium. The increase was offset by the $4.1 million decrease in investments held with the Foundation, as funds held were used to support the University and fulfill planned contract requirements.

Liabilities

Current liabilities were $48.5 million at June 30, 2013, representing an increase of $3.5 million over prior year. This consists primarily of $34.6 million held for advanced ticket sales and sponsorships. Advances increased $2.0 million over the prior year, due primarily to the $1.5 million increase in deferred football season ticket sales as the number of season tickets sold increased. Accounts payable and accrued liabilities increased $1.1 million over the prior year as new capital projects contributed to increased construction payables of $1.5 million.

Noncurrent liabilities were $91.7 million, or 65% of total liabilities, at June 30, 2013. The most significant noncurrent liability consists of $69.5 million in bonds and notes payable for the Stadium and other capital projects. The Association also has $10.5 million in interest-free loans from the University and the Foundation in noncurrent liabilities. These loans relate to the construction of the Stadium and Cardinal Park. Noncurrent liabilities increased $7.4 million, or 9%, when compared to the prior year due to the issuance of a term loan for $15.0 million. The additional debt was offset by $6.7 million in scheduled debt payments.

Deferred Inflows of Resources

In addition to liabilities, the Association reports deferred inflows of resources, which represent an acquisition of net position that applies to future periods. The Association recognizes the fair market value of two financial derivatives related to outstanding debt in other long-term assets. As both derivatives are considered to be effective in the reduction of risk, the change in their fair market value is shown as a deferred inflow of resources. The decrease in fair market value related to the forward delivery agreement of $180 thousand was offset by the fair market value of the interest rate swap entered into as part of the term loan received in June 2013.

Net Position

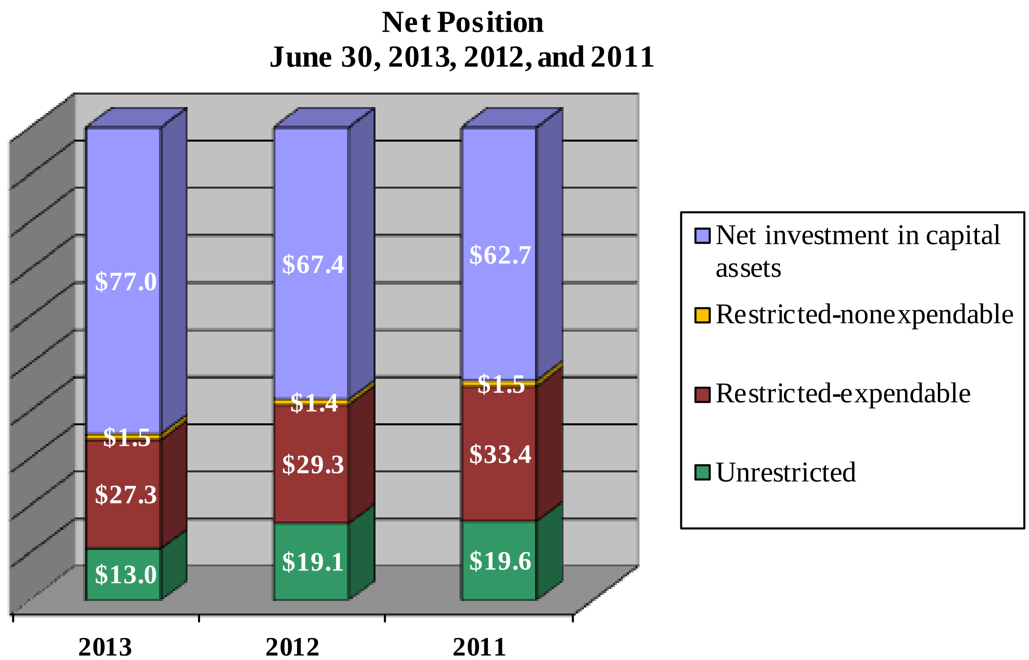
Total net position of $118.8 million as of June 30, 2013 is reported in the following categories: net investment in capital assets, $77.0 million (65%); restricted-nonexpendable, $1.5 million (1%); restricted-expendable, $27.3 million (23%); and unrestricted, $13.0 million (11%).

Net investment in capital assets primarily represents the net investment in the Stadium. The increase of $9.6 million relates mainly to the additions in buildings of $4.6 million and additional construction in progress of $3.0 million.

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. When compared to June 30, 2012, restricted-expendable net position decreased $1.9 million, due to the use of funds to make scheduled debt service payments.

Unrestricted net position decreased $6.1 million as compared to the prior year balance of $19.1 million. This decrease is due mainly to the decrease of unrestricted investments in the Foundation, resulting from the use of investment funds to support the University and fulfill planned contract requirements.

A graphic illustration of net position as of June 30, 2013, 2012, and 2011 is as follows:



Fiscal Year 2012

Total assets at June 30, 2012 were $247.1 million, a decrease of $4.8 million compared to the $251.9 million as of June 30, 2011. Restricted cash decreased $2.2 million, as debt service payments of $4.0 million and capital asset purchases of $2.2 million were offset by $3.7 million of cash received related to capital gifts. Net capital assets decreased $1.6 million as the $4.1 million of depreciation offset the capital asset additions of $2.5 million.

Liabilities at June 30, 2012 were $129.3 million as compared to $134.7 million as of June 30, 2011. The decrease of $5.4 million is due mainly to scheduled debt payments. The $2.2 million increase in advances related to the increased number of games in the upcoming football season. This was offset by a $2.8 million decrease in deferred compensation and wages payable, as the Association fulfilled contract obligations during the year.

Deferred inflows of resources at June 30, 2012 of $0.6 million relate to the forward delivery agreement associated with the Stadium expansion project debt service.

Net position at June 30, 2012 was $117.2 million, similar to the June 30, 2011 net position. The increase in net investment in capital assets of $4.7 million was offset by the $4.4 million decrease in net position restricted for debt service. The payments on outstanding debt increase the Association's position in the capital assets.

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, 2013, 2012 and 2011 are as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011	2013 - 2012 Change	2012 - 2011 Change
OPERATING REVENUES					
Sports	$ 36,653	$ 34,783	$ 37,031	$ 1,870	$ (2,248)
Other operating revenues	9,225	7,201	6,993	2,024	208
Total operating revenues	45,878	41,984	44,024	3,894	(2,040)
OPERATING EXPENSES					
Sports	46,117	41,723	38,693	4,394	3,030
Other operating expenses	30,041	25,807	24,337	4,234	1,470
Depreciation	4,201	4,126	3,681	75	445
Total operating expenses	80,359	71,656	66,711	8,703	4,945
Operating loss	(34,481)	(29,672)	(22,687)	(4,809)	(6,985)
NONOPERATING REVENUES (EXPENSES)					
Gifts	37,088	29,556	30,902	7,532	(1,346)
Net realized and unrealized gain/ (loss) on investments	1,177	(2,624)	3,722	3,801	(6,346)
Investment returns	373	609	648	(236)	(39)
Other nonoperating expenses	(2,689)	(2,872)	(2,510)	183	(362)
Transferred from related entities	141	5,031	1,519	(4,890)	3,512
Net nonoperating revenues	36,090	29,700	34,281	6,390	(4,581)
Increase in net assets	1,609	28	11,594	1,581	(11,566)
NET POSITION					
Net position-beginning of year	117,241	117,213	105,619	28	11,594
Net position-end of year	$ 118,850	$ 117,241	$ 117,213	$ 1,609	$ 28

Operating Revenues

Total operating revenues were $45.9 million and $42.0 million for the years ended June 30, 2013 and 2012, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised $36.7 million, or 80% of total operating revenues for the year. Other operating revenues amounting to $9.2 million and $7.2 million for the years ended June 30, 2013 and 2012, respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts. Operating revenues increased $3.9 million, or 9%, due to the increase in football revenue, resulting from one more home game during the fiscal year.

Operating Expenses

Total operating expenses were $80.4 million and $71.7 million for the years ended June 30, 2013 and 2012, respectively. For the year ended June 30, 2013, expenses consist mainly of $46.1 million in direct sports-related expenses. The remaining $34.3 million in operating expenses consist mainly of support services of $8.2 million; marketing and development of $7.1 million; and administrative expenses of $6.9 million. The depreciation expense of $4.2 million is associated primarily with the Stadium.

Total operating expenses increased by $8.7 million, or 12%, in the current year due mainly to expenses related to the $4.4 million increase in direct sports-related expenses, which consists primarily of increased salary expense of $2.8 million due to contractual obligations. Other operating expenses increased $4.3 million, due also to increased salaries, as well as additional expenses related to hosting additional conference and NCAA tournament rounds.

Operating Loss, Nonoperating Revenues and the Increase in Net Position

The Association's loss from operations amounted to $34.5 million and $29.7 million for the years ended June 30, 2013 and 2012, respectively. During the fiscal year ended June 30, 2013, the operating loss was offset by the $36.1 million in nonoperating revenues leaving an increase in net position of $1.6 million. This is an increase of $1.6 million as compared to the $28 thousand increase in net position realized during the fiscal year ended June 30, 2012.

Overall, nonoperating revenues increased $6.4 million, or 22%. Net realized and unrealized gains for the fiscal year were $1.2 million, compared to a prior year loss of $2.6 million, due to increased value of the investments held by the Foundation. Capital gifts increased $5.2 million due to the increased number of campaigns to support the capital projects including $3.6 million for the Academic Center and $1.7 million for the Dr. Mark and Cindy Lynn Soccer Stadium.

Fiscal Year 2012

The Association had an increase in net position for the year ended June 30, 2012 of $28 thousand, compared to the $11.6 million increase for the fiscal year ended June 30, 2011. Operating revenues decreased $2.0 million due to the decrease in football as the season had one less home game. At the same time, operating expenses increased by $4.9 million, or 7%, due to increases in expenses related to compensation expenses of $3.2 million.

Overall, nonoperating revenues decreased $4.6 million, or 13%, compared to the fiscal year ended June 30, 2011. Net realized and unrealized losses for the fiscal year were $2.6 million, compared to a prior year gain of $3.7 million, due to a decrease in the value of the investments held by 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 and related financing, capital financing and investing activities. A summary of the Association's cash flow activity for the years ended June 30, 2013, 2012 and 2011 is as follows:

Condensed Statements of Cash Flows
Years ended June 30, 2013, 2012, and 2011
(In Thousands)

	2013	2012	2011	2013 - 2012 Change	2012 - 2011 Change
Cash (used)/provided by:					
Operating activites	$ (27,739)	$ (26,221)	$ (19,942)	$ (1,518)	$ (6,279)
Noncapital financing activities	29,814	33,638	37,962	(3,824)	(4,324)
Capital financing activities	5,222	(7,721)	(9,351)	12,943	1,630
Investing activities	5,695	(2,327)	(706)	8,022	(1,621)
Net increase/(decrease) in cash and cash equivalents	12,992	(2,631)	7,963	15,623	(10,594)
Cash and cash equivalents, beginning of year	46,399	49,030	41,067	(2,631)	7,963
Cash and cash equivalents, end of year	$ 59,391	$ 46,399	$ 49,030	$ 12,992	$ (2,631)

Operating Activities

The Association's cash and cash equivalents increased by $13.0 million during the year. The Association experienced a net outflow of $27.7 million in cash paid for operations, an increase of $1.5 million, or 6% compared to the fiscal year ended June 30, 2012. Cash provided by ticket sales increased $3.0 million due to increased number of football and basketball games. This was offset by the increase in payments to employees of $4.9 million, due to contractual obligations.

Other Activities

Cash provided by noncapital and related financing activities of $29.8 million offset the cash used by operating activities. These cash flows consist primarily of $29.7 million in gifts received to support the sports programs. Cash provided by capital financing activities relates mainly to $15.0 million from the term loan received. This receipt was partially offset by the $9.2 of cash used for principal and interest payments on long-term liabilities.

Cash provided by investing activities was $5.7 million, compared to a use of $2.3 million in the prior year. This cash provided relates to the partial liquidation of investments held with the Foundation to support the University and fulfill planned contractual obligations.

Fiscal Year 2012

The Association's cash and cash equivalents decreased by $2.6 million during the year ended June 30, 2012. As compared to the fiscal year ended June 30, 2011, the Association used $6.3 million more cash for operations and received $4.3 million less from noncapital and capital financing.

Cash provided by NCAA distributions increased $3.3 million due to increased receipts related to the men's basketball team of $2.1 million and the football team of $1.0 million. This was offset by the increase in payments to employees of $5.6 million, including payments for benefits, due to contractual obligations.

Cash provided by noncapital and related financing activities of $33.6 million offset the cash used by operating activities. These cash flows consist primarily of $28.6 million in gifts received to support the sports programs. Cash used by capital financing activities relates mainly to $9.1 million in principal and interest paid on bonds and notes payable.

Cash used by investing activities was $2.3 million, compared to $0.7 million in the prior year. This increase in cash used is due mainly to the net purchase of investments of $2.8 million, as the Association increased the amount of funds invested with the Foundation.

Economic Factors that May Affect Future Periods

The Association's budgetary goals for the current year include planning for the next several capital construction projects, such as the expansion of Ulmer Softball Stadium, the Academic Center and the Dr. Mark and Cindy Lynn Soccer Stadium. Additionally, the intention is to grow merchandising and licensing programs to become more visible, both nationally and internationally.

The Association's Board of Directors approved a balanced operating budget for the 2014 fiscal year. The balanced budget calls for $77.2 million in revenues and expenses, an 8% increase over the original 2013 fiscal year budget of $71.5 million. The budget includes an increase in basketball revenue of 11%, with an increase in expenses of 16%, due to additional games in the upcoming season and anticipated contractual obligations.

The Association anticipates entering the Atlantic Coast Conference in July 2014. For the athletic season during the fiscal year ending June 30, 2014, the athletic teams will play as part of the American Athletic Conference.

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, 2013 and 2012
(In Thousands)

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 35,984	$ 34,490
Deposits with bond trustee	6,310	6,090
Accounts and contributions receivable, net	5,001	6,155
Other assets	251	722
Total current assets	47,546	47,457
Noncurrent Assets:		
Restricted cash	23,407	11,909
Deposit with bond trustee	320	799
Accounts and contributions receivable, net	16,903	14,142
Investments held with University of Louisville Foundation, Inc.	32,710	36,779
Other long-term investments	-	396
Other long-term assets	1,038	1,207
Capital assets, net	137,599	134,452
Total noncurrent assets	211,977	199,684
Total assets	259,523	247,141
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	5,790	4,718
Deferred compensation and wages payable	1,233	1,062
Advances	34,594	32,560
Note payable to University of Louisville Foundation, Inc.	200	200
Bonds and note payable	6,740	6,521
Total current liabilities	48,557	45,061
Noncurrent Liabilities:		
Due to University of Louisville	9,173	9,173
Due to University of Louisville Foundation, Inc.	316	316
Deferred compensation and wages payable	7,441	8,038
Note payable to University of Louisville Foundation, Inc.	1,000	1,200
Advances	3,344	3,509
Other long-term liabilities	860	781
Bonds and note payable	69,530	61,270
Total noncurrent liabilities	91,664	84,287
Total liabilities	140,221	129,348
DEFERRED INFLOWS OF RESOURCES	452	552
NET POSITION		
Net investment in capital assets	76,984	67,386
Restricted:		
Nonexpendable		
Scholarships and fellowships	1,538	1,421
Expendable		
Scholarships and fellowships	724	700
Institutional support	1,986	1,491
Capital projects	4,672	3,319
Debt service	19,930	23,791
Unrestricted	13,016	19,133
Total net position	$ 118,850	$ 117,241

See notes to financial statements

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
OPERATING REVENUES		
Sports:		
Basketball	$ 16,584	$ 18,421
Football	18,662	15,331
Other sports	1,407	1,031
Total sports	36,653	34,783
Papa John's Cardinal Stadium	658	685
Marketing & development	5,397	4,318
Administration	1,687	983
Support services	503	451
Other operating revenues	980	764
Total operating revenues	45,878	41,984
OPERATING EXPENSES		
Sports:		
Basketball	10,789	9,743
Football	16,154	13,512
Other sports	19,174	18,468
Total sports	46,117	41,723
Papa John's Cardinal Stadium	1,155	980
Marketing & development	7,113	5,196
Administration	6,935	5,634
Support services	8,187	7,909
Game management/facilities operations	2,809	2,397
Depreciation	4,201	4,126
Other operating expenses	3,842	3,691
Total operating expenses	80,359	71,656
Operating loss	(34,481)	(29,672)
NONOPERATING REVENUES (EXPENSES)		
Gifts	30,306	27,971
Investment returns	373	609
Net realized and unrealized gain/(loss) on investments	1,177	(2,624)
Interest on capital related debt	(2,725)	(2,949)
Other nonoperating revenues	36	77
Net nonoperating revenues	29,167	23,084
Capital gifts	6,782	1,585
Transfers from related entities	141	5,031
Total other revenues	36,090	29,700
Increase in net position	1,609	28
NET POSITION		
Net position-beginning of year	117,241	117,213
Net position-end of year	$ 118,850	$ 117,241

See notes to financial statements

University of Louisville Athletic Association, Inc.
A Component Unit of the University of Louisville
Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Ticket sales	$ 26,611	$ 23,534
NCAA distributions	12,914	11,661
Payments to suppliers	(31,010)	(27,778)
Payments to employees	(32,315)	(27,405)
Payments for utilities	(27)	(36)
Payments for benefits	(5,384)	(6,934)
Payments for scholarships and fellowships	(12,577)	(11,586)
Other athletic program receipts, net	14,049	12,323
Net cash used by operating activities	(27,739)	(26,221)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Gifts	29,673	28,582
Transfers from related entities	141	5,031
Other payments	-	25
Net cash provided by noncapital and related financing activities	29,814	33,638
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal paid on loan payable to the University of Louisville Foundation, Inc.	(200)	(305)
Capital gifts received	5,280	4,335
Proceeds from issuance of bonds	15,000	-
Purchases of capital assets	(5,886)	(3,349)
Principal paid on bonds payable	(6,415)	(6,193)
Interest paid on bonds payable	(2,816)	(2,955)
Deposits with bond trustee	259	746
Net cash provided/(used) by capital financing activities	5,222	(7,721)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	6,435	948
Purchase of investments	(935)	(3,750)
Interest on investments	195	475
Net cash provided/(used) by investing activities	5,695	(2,327)
Net increase/(decrease) in cash and cash equivalents	12,992	(2,631)
Cash and cash equivalents - beginning of year	46,399	49,030
Cash and cash equivalents - end of year	$ 59,391	$ 46,399
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (34,481)	$ (29,672)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	4,201	4,126
Loss on disposal of equipment	21	-
Change in assets and liabilities:		
Accounts and contributions receivable, net	1,151	(2,029)
Other assets	765	147
Accounts payable and accrued liabilities	(282)	1,882
Advances	1,248	1,514
Deferred compensation and wages payable	(441)	(2,195)
Other long-term liabilities	79	6
Net cash used by operating activities	$ (27,739)	$ (26,221)
Capital asset additions in accounts payable	$ 1,698	$ 215

See notes to financial statements

1. Basis of Presentation and Summary of Significant Accounting Policies

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

a. Basis of Presentation

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

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

During the year ended June 30, 2013, the Association adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in Paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Association's net position or changes in net position and minimal changes to financial reporting disclosures.

During the year ended June 30, 2013, the Association adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, An Amendment of GASB Statements No.14 and No. 34*, which had no impact on the Association's financial statements.

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

b. Cash and Cash Equivalents

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

c. Deposits with Bond Trustee

As of June 30, 2013 and 2012, deposits with bond trustees consist of cash and investments in governmental securities and a repurchase agreement totaling $6.6 million and $6.9 million, respectively, for the Stadium Project Revenue Bonds. Investments in governmental securities are stated at market value. The repurchase agreement is stated at cost.

d. Contributions Receivable

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* as amended by GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, the Association records operating and capital pledges as revenue when all eligibility requirements have been met. Endowment pledges are not recognized as revenue until the gifts are received.

e. Investments

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

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

The Association's permanent endowment funds, held by the Foundation and invested in the Foundation's general endowment pool, are administered under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky (Commonwealth). The Foundation's board of directors has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The investment objectives of the Foundation are to preserve the principal of the endowment funds in both absolute and real terms while maximizing, over the long-term, the total rate of return (yield and appreciation) within reasonable risk parameters.

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

f. Capital Assets

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

g. Deferred Outflows and Inflows of Resources

During the year ended June 30, 2013, the Association adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.*

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. GASB No. 63 has been applied retrospectively, by reclassifying certain 2012 financial statement line items to conform with the presentation requirements of the standard.

h. Deferred Compensation Expenses

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

i. 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.

j. 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 $37.9 million and $36.1 million at June 30, 2013 and 2012, respectively. Such advances are recognized over the term of the related athletic activities.

k. 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.

l. Net Bond Premium

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

m. 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.

n. Tax Status

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

o. 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 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.

p. Reclassifications

Certain 2012 amounts have been reclassified to conform with the 2013 presentation. These reclassifications had no effect on the change in net position.

2. Cash and Investments

a. Summary of Carrying Values

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

	2013	2012
Deposits	$ 59,391	$ 46,399
Investments		
U.S. Treasury obligations	2,401	2,660
Repurchase agreement	4,229	4,229
Investments held with the University of Louisville Foundation, Inc.	32,710	36,779
Certificates of deposit	-	100
Annuities	-	296
	$ 98,731	$ 90,463
Included in the following statements of net position captions:		
Cash and cash equivalents	$ 35,984	$ 34,490
Deposit with bond trustee-current	6,310	6,090
Restricted cash	23,407	11,909
Deposit with bond trustee-noncurrent	320	799
Investments held with the University of Louisville Foundation, Inc.	32,710	36,779
Other long-term investments	-	396
	$ 98,731	$ 90,463

b. Custodial Credit Risk

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

The University currently uses commercial banks and the Commonwealth as its depositories. Deposits with commercial banks are 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.

All of the underlying securities for the Association's investments in the repurchase agreement at June 30, 2013 and 2012 are held by the counterparties in other than the Association's name. The Association's investment policy does not address how securities underlying repurchase and forward delivery agreements are to be held.

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.

The Association has entered into a repurchase agreement for the investment of bond fund reserves. The provider financial institution agrees to deliver U.S. Treasury obligations yielding a guaranteed rate at an amount equal to the scheduled bond fund reserve. The final maturity under this agreement is March 1, 2028.

As of June 30, 2013 and 2012, the Association had the following investments subject to interest rate risk (in thousands):

June 30, 2013

		Maturities in years			
Type	Fair Value	Less than 1	1-5	6-10	More than10
U.S. Treasury obligations	$ 2,401	$ 891	$ 1,510		
Repurchase agreement	4,229	404	1,964	$ 708	$ 1,153
	$ 6,630	$ 1,295	$ 3,474	$ 708	$ 1,153

June 30, 2012

		Maturities in years			
Type	Fair Value	Less than 1	1-5	6-10	More than10
U.S. Treasury obligations	$ 2,660	$ 1,150	$ 80	$ 1,430	
Repurchase agreement	4,229	-	2,368	450	$ 1,411
Certificates of deposit	100	100	-	-	-
	$ 6,989	$ 1,250	$ 2,448	$ 1,880	$ 1,411

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, 2013 and 2012, the $32.7 million and $36.8 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, 2013 and 2012 was as follows:

	2013	**2012**
Investment in partnerships	56%	56%
Marketable alternatives	19%	19%
Preferred and common stock	11%	11%
Mutual funds	9%	10%
Corporate bonds	3%	3%
Equity method investments	1%	0%
Certificates of deposit	1%	1%
	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, 2013 or 2012.

3. Transactions with Related Organizations

a. University of Louisville

The Association has contracted with the University for certain administrative, operational, and maintenance services. During the years ended June 30, 2013 and 2012, 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, 2013 and 2012, the Foundation held funds of the Association of approximately $32.7 million and $36.8 million, respectively, for investment purposes.

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

c. Debt with Related Entities

As of June 30, 2013 and 2012, 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 January 1999, the Association received an $8.5 million unsecured, noninterest bearing loan from the Foundation for the construction of Cardinal Park. The Association is obligated to repay the loan upon collection of contributions receivable. Certain contributions receivable are held by the University and collections are transferred to the Association for the repayment of the loan. During the years ended June 30, 2013 and 2012, the Association repaid $0.2 million and $0.3 million, respectively. The outstanding balance was approximately $1.2 million and $1.4 million as of June 30, 2013 and 2012, respectively, of which approximately $0.2 million was shown as current as of June 30, 2013 and 2012.

In July 2001, the Association received a $347,000 unsecured, noninterest bearing loan with no specific repayment terms from the Foundation for the refurbishing of the Cardinal Basketball Offices. The outstanding loan balance is approximately $316,000 as of June 30, 2013 and 2012.

d. Transfers with Related Entities

The University, during its annual budgetary process, agrees to transfer funds to the Association to assist with expenses related to retention and gender issues. The University transferred $2.1 million and $2.2 million for the years ended June 30, 2013 and 2012, respectively. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred $1.9 million of student fees collected for each of the years ended June 30, 2013 and 2012, respectively. During the years ended June 30, 2013 and 2012, the Association transferred $2.0 million and $0.4 million to the University to provide general support.

The Association is the beneficiary of pledges related to certain capital projects, which are financed by the University, and as such, are recorded as assets of the University. The Association transfers cash received on these pledges, as well as other unrestricted funds to the University in order to fulfill the purpose of the gifts. The Association transferred $1.5 million and $1.7 million related to capital projects and debt service payments during the fiscal years ended June 30, 2013 and 2012, respectively. During each of the fiscal years ended June 30, 2013 and 2012, the University transferred to the Association $0.8 million in pledge receipts and other capital project funding related to capital projects that are financed by the Association, and as such, are recorded as assets of the Association.

Additionally, the Association transferred $1.2 million and received $2.2 million from the University for the years ended June 30, 2013 and 2012, respectively, related to other transactions.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2013 and 2012 are as follows (in thousands):

2013	Gross	Allowance	Net
Trade receivables	$ 1,659		$ 1,659
Contributions receivable	22,830	$ (1,955)	20,875
Total	$ 24,489	$ (1,955)	22,534
Less: Discount			(630)
Current portion			5,001
Non current portion			$ 16,903

2012	Gross	Allowance	Net
Trade receivables	$ 2,910		$ 2,910
Contributions receivable	19,526	$ (1,406)	18,120
Total	$ 22,436	$ (1,406)	21,030
Less: Discount			(733)
Current portion			6,155
Non current portion			$ 14,142

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 5.4%.

Contributions receivable as of June 30, 2013 and 2012 are due to be received as follows (in thousands):

	2013	2012
Less than one year	$ 4,284	$ 3,956
One to three years	7,190	5,748
Greater than three years	11,356	9,822
Subtotal	22,830	19,526
Less: discount	(630)	(733)
Less: allowance	(1,955)	(1,406)
Net contributions receivable	$ 20,245	$ 17,387

5. Capital Assets, Net

Capital assets as of June 30, 2013 and 2012 are as follows and on the following page (in thousands):

	2012				
	Beginning Balance	Additions	Retire-ments	Transfers	Ending Balance
Cost-Nondepreciable					
Land	$ 5,151				$ 5,151
Construction in progress	74	$ 1,610		$ (1,328)	356
Subtotal	5,225	1,610		(1,328)	5,507
Cost-Depreciable					
Buildings	155,431	293		548	156,272
Land improvements	1,364	291		780	2,435
Equipment	1,315	363	$ (15)	-	1,663
Leasehold improvements	1,299	-	-	-	1,299
Subtotal	159,409	947	(15)	1,328	161,669
Total capital assets-cost	164,634	2,557	(15)	-	167,176
Accumulated depreciation					
Buildings	27,029	3,902	-	-	30,931
Land improvements	149	39	-	-	188
Equipment	942	126	(15)	-	1,053
Leasehold improvements	493	59	-	-	552
Subtotal	28,613	4,126	(15)	-	32,724
Capital assets, net	$ 136,021	$ (1,569)	$ -	$ -	$ 134,452

6. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2013 and 2012 are summarized as follows (in thousands):

	2013					
	Beginning Balance	**Additions**	**Retire-ment**	**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	$ 29,215		$ (4,410)	$ 24,805	$ 4,570	$ 20,235
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.5% to 4.8% Final maturity in 2028	36,545		(1,680)	34,865	1,740	33,125
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	1,794		(325)	1,469	341	1,128
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	-	$ 15,000	-	15,000	-	15,000
Total bonds payable	67,554	15,000	(6,415)	76,139	6,651	69,488
Plus unamortized net premium	237	-	(106)	131	89	42
Bonds payable, net	$ 67,791	$ 15,000	$ (6,521)	$ 76,270	$ 6,740	$ 69,530

	2012					
	Beginning Balance	Additions	Retire-ment	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	$ 33,475		$ (4,260)	$ 29,215	$ 4,410	$ 24,805
Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.5% to 4.8% Final maturity in 2028	38,170		(1,625)	36,545	1,680	34,865
Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017	2,102		(308)	1,794	325	1,469
Total bonds payable	73,747		(6,193)	67,554	6,415	61,139
Plus unamortized net premium	359		(122)	237	106	131
Bonds payable, net	$ 74,106	$ -	$ (6,315)	$ 67,791	$ 6,521	$ 61,270

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

For the Year Ended June 30	Principal	Interest	Total
2014	$ 6,651	$ 3,002	$ 9,653
2015	8,488	2,748	11,236
2016	8,640	2,425	11,065
2017	8,706	2,090	10,796
2018	18,152	1,705	19,857
2019 - 2023	11,391	4,833	16,224
2024 - 2028	14,111	2,093	16,204
Total	$ 76,139	$ 18,896	$ 95,035

Association revenue is pledged for the payment of the Metro Government Stadium expansion bonds, and a term loan excluding approximately $2.0 million annually, which is to be available for amounts owed by the Association under the Arena lease agreement. Total principal and interest remaining on the debt is $93.1 million, with annual requirements ranging from $3.2 million in 2027 to $19.8 million in 2018. For the current year, principal and interest paid by the Association and the total pledged revenue recognized were $8.8 million and $78.9 million, respectively.

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

In July 2008, the Louisville Metro Government issued $39.8 million of Mortgage Revenue Bonds 2008 Series A and $43.5 million of Mortgage Revenue Bonds 2008 Series B (Mortgage Revenue Bonds) at a combined net interest cost of 4.2 percent. The bond proceeds were used on September 1, 2008 to retire the outstanding County of Jefferson Kentucky Governmental Lease Revenue Bonds, Series 1997, the proceeds of which financed the acquisition, construction, installation and equipping of the sports stadium known as University of Louisville Papa John's Cardinal Stadium (the Prior Project). Additional funds were used to finance a portion of the costs of acquisition, construction, installation and equipping of an expansion to the Prior Project. The bonds are secured by a mortgage on the University of Louisville Papa John's Cardinal Stadium and associated training and related facilities, and pledged Adjusted Gross Revenues, as defined by the official statement.

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

Term Loan

In June 2013, the Association entered into a $15.0 million Term Loan with a national banking association. The proceeds will be 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 percent, reset on the last day of each month.

7. Derivative Financial Instruments

a. Summary

At June 30, 2013, 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%	$ 80
Forward delivery agreement	Earn a higher rate of return than investments with shorter life	$ 1,510	8/5/2008	3/1/2018	Receive 6.4% on balance of scheduled reserve amount	$ 372

The Forward Delivery Agreement requires the counterparty to deposit securities into the Association's debt service reserve trust account and provides the Association with a guaranteed rate of return. The securities that are deposited into the debt service reserve trust accounts are required to mature prior to the scheduled debt service payment dates on the bond that is secured by the debt service reserve funds.

Eligible securities include cash and direct, full faith and credit, non-callable obligations of the United States of America. The Forward Delivery Agreement allows the Association to earn a guaranteed fixed rate of return over the life of the investment. This agreement is utilized by the Association to earn a rate of return in excess of a rate that would otherwise be feasible by investing in securities with a shorter term.

The fair value of the Forward Delivery Agreement is based on the value of the future discounted cash flows expected to be received over the life of the agreement and is included in other long-term assets on the statements of net position. As the Forward Delivery Agreement is an effective hedging instrument, the offsetting balance is reflected as deferred inflows of resources on the Association's statements of net position. For the year ended June 30, 2013, the fair value of the Forward Delivery Agreement decreased approximately $180,000. The Association receives settlement semi-annually and the settlement is included in interest expense.

The fair value of the Interest Rate Swap was determined using proprietary models used by the counterparty banking institution 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 inflows of resources on the Association's statements of net position. For the year ended June 30, 2013, the change in fair value of the Interest Rate Swap was approximately $80,000. 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

Credit risk is the risk that the counterparty will not fulfill its obligations. Under the terms of the Forward Delivery Agreement, the Association is either holding cash or an approved security within the debt service reserve funds. None of the principal amount of an investment under the Forward Delivery Agreement is at risk to the credit of the counterparty. Should the counterparty default, the Association's maximum exposure is the positive termination value, if any, related to this agreement.

The Interest Rate Swap's fair value represented the Association's credit exposure to the counterparty as of June 30, 2013. 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, 2013, 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 Forward Delivery Agreement if the other party fails to perform under the terms of the contract. In addition, the Association has an unrestricted option to terminate the Forward Delivery Agreement. If the Forward Delivery Agreement has a negative fair value at the time of termination, the Association would be liable to the counterparty for a payment equivalent to the fair market value of the instrument at the time of termination.

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.

8. Other Liabilities

Other liabilities as of June 30, 2013 and 2012 are summarized as follows (in thousands):

	2013					
	Beginning Balance	**Additions**	**Retire-ment**	**Ending Balance**	**Current Portion**	**Noncurrent Portion**
Due to University of Louisville	$ 9,173			$ 9,173		$ 9,173
Due to University of Louisville Foundation Inc.	316			316		316
Deferred compensation and wages payable	9,100	$ 3,684	$ (4,110)	8,674	$ 1,233	7,441
Note payable to University of Louisville Foundation, Inc.	1,400	-	(200)	1,200	200	1,000
Advances	36,069	34,539	(32,670)	37,938	34,594	3,344
Other post-employment benefits	805	214	(114)	905	142	763
Other long-term liabilities	137	-	(20)	117	20	97
Total	$ 57,000	$ 38,437	$ (37,114)	$ 58,323	$ 36,189	$ 22,134

	2012					
	Beginning Balance	**Additions**	**Retire-ment**	**Ending Balance**	**Current Portion**	**Noncurrent Portion**
Due to University of Louisville	$ 9,173			$ 9,173		$ 9,173
Due to University of Louisville Foundation Inc.	316			316		316
Deferred compensation and wages payable	11,547	$ 979	$ (3,426)	9,100	$ 1,062	8,038
Note payable to University of Louisville Foundation, Inc.	1,705	-	(305)	1,400	200	1,200
Advances	33,475	32,973	(30,379)	36,069	32,560	3,509
Other post-employment benefits	788	122	(105)	805	141	664
Other long-term liabilities	-	157	(20)	137	20	117
Total	$ 57,004	$ 34,231	$ (34,235)	$ 57,000	$ 33,983	$ 23,017

Other long-term liabilities as of June 30, 2013 and 2012 consist of future expenses required by certain pledge agreements. The current portion of other long-term liabilities and other post-employment benefits is included in accounts payable and accrued liabilities in the statements of net position as of June 30, 2013 and 2012.

9. Natural Classification

Operating expenses by natural classification for the years ended June 30, 2013 and 2012 were approximately (in thousands):

	2013	2012
Salaries and wages	$ 30,935	$ 26,450
Employee benefits	5,717	4,998
Supplies and services	26,902	24,460
Scholarships and fellowships	12,577	11,586
Utilities	27	36
Depreciation	4,201	4,126
	$ 80,359	$ 71,656

10. Retirement Plan

Association and University personnel participate in a contributory retirement plan administered by the University. The Association recorded expenses related to the defined contribution plan of approximately $1.5 million and $1.4 million during the years ended June 30, 2013 and 2012, respectively.

11. Postemployment Healthcare Benefits

a. Plan Description

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

Effective July 1, 2012, the life insurance benefit was restructured to be priced as a fully insured supplemental benefit for which the retirees pay 100% of the cost, so no obligation is assumed after the fiscal year ended June 30, 2013.

b. Funding Policy

The Plan is funded on a pay-as-you-go basis. During the years ended June 30, 2013 and 2012, the University contributed approximately $1.0 million and $0.8 million, approximately 56% and 50% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million, approximately 44% and 50% of total premiums for the years ended June 30, 2013 and 2012, respectively, through their required monthly contributions according to the schedules below:

	2013				
	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low
Employee	$ 389	$ 419	$ 431	$ 279	$ 208
Employee and Spouse	$ 763	$ 828	$ 850	$ 583	$ 451

	2012				
	PPO	Cardinal Care Plan	EPO	PCA High	PCA Low
Employee	$ 364	$ 394	$ 406	$ 254	$ 183
Employee and Spouse	$ 738	$ 803	$ 825	$ 558	$ 426

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For each of the years ended June 30, 2013 and 2012, the University contributed $1.2 million for Medicare-eligible retirees.

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

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

The following table shows the components of the University's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the University's net OPEB obligation (in thousands):

	2013	2012
Normal cost	$ 4,190	$ 5,068
AAL amortization	4,693	4,313
Annual required contribution (ARC)	8,883	9,381
Interest on above	717	759
Adjustment to ARC	(880)	(886)
OPEB liability gain	(3,244)	(5,917)
Annual OPEB cost (AOC)	5,476	3,337
Contributions made	(2,221)	(2,025)
Increase in net OPEB obligation	3,255	1,312
Net OPEB obligation - beginning of year	24,045	22,733
Net OPEB obligation - end of year	$ 27,300	$ 24,045

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

Fiscal Year Ended June 30,	Annual OPEB Cost/(Gain)	Percentage of Annual OPEB Cost/(Gain) Contributed	Net OPEB Obligation
2013	$ 5,476	41%	$ 27,300
2012	3,337	61%	24,045
2011	(6,087)	-27%	22,733

The University allocates a portion of the AOC, and the corresponding OPEB obligation, to its affiliated corporations, including the Association. For the years ended June 30, 2013 and 2012, the Association's portion of the AOC was $0.2 million and $0.1 million, respectively. As of June 30, 2013 and 2012, the Association's net OPEB obligation was $0.9 million and $0.8 million, respectively, of which $0.8 million and $0.7 million, respectively, was recorded in other long-term liabilities and $0.1 million was recorded in accounts payable and accrued liabilities.

d. Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $82.3 million and $79.9 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of $82.3 million and $79.9 million as of June 30, 2013 and 2012, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $426.8 million and $416.0 million, and the ratio of the UAAL to the covered payroll was 19%, for each of the years ended June 30, 2013 and 2012.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions

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

In the July 1, 2012, actuarial valuation, the unit credit method actuarial cost method was used. The actuarial assumptions included a 3 percent investment rate of return (net of administrative expenses), which is based on the estimated return on the University's general assets, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 5 percent after 8 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2013 and 2012 were due to updates made on expected future health claims and changes made to the retiree life insurance benefit. Expected claims have decreased based on a review of actual claims over the last three years as well as current COBRA rates. The UAAL is being amortized on a straight line basis over 30 years. The remaining amortization period at June 30, 2013 was 24 years.

12. Leases

a. Kentucky State Fair Board

The University has entered into a lease agreement with the Kentucky State Fair Board (KSFB) for use of 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, 2013 and 2012 amounted to approximately $55,000.

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. Total lease expenses during the years ended June 30, 2013 and 2012 amounted to approximately $83,000 and $82,000, 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. 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, 2013 and 2012 amounted to approximately $3.4 million and $3.0 million, respectively. Additionally, the lease agreement provides for the Association to purchase parking spaces from the Arena Authority. Total parking expense during the years ended June 30, 2013 and 2012 amounted to approximately $0.5 million and $0.7 million, respectively.

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, 2013 and 2012 amounted to approximately \$2.1 million and \$2.3 million, respectively.

d. Future Minimum Lease Payments

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

For the year ending June 30,	Lease Payment Due
2014	$ 429
2015	429
2016	429
2017	429
2018	435
2019 - 2023	2,175
2024 - 2028	1,696
2029 - 2033	1,425
2034 - 2038	1,425
2039 - 2043	1,425
2044 - 2044	285
Future minimum lease payments	$ 10,582

13. Commitments and Contingencies

a. Commitments

At June 30, 2013 and 2012, the Association had approximately \$1.9 million and \$0.4 million, respectively, in encumbrances outstanding for future expenditures related mainly to construction projects.

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.

14. Recent Accounting Pronouncements

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. With the exception of prepaid insurance costs, costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt, but instead will be recognized as an expense in the period incurred. Accounting changes to comply with the standard will be applied retroactively by restating financial statements for all periods presented. The adoption of GASB No. 65 will require classification of certain items and a change in the recognition of items previously reported as assets and liabilities, beginning with the fiscal year ending June 30, 2014.

GASB has issued additional standards, Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*; Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*; Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*; Statement No. 69, *Government Combinations and Disposals of Government Operations*; and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Association does not believe these standards will impact the financial statements.

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

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabaility (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
7/1/2012	$ -	$ 82,260	$ 82,260	0%	426,752	19%
7/1/2011	-	79,912	79,912	0%	416,016	19%
7/1/2010	-	79,892	79,892	0%	400,911	20%