# UNIVERSITY OF LOUISVILLE ATHLETIC ASSOCIATION, INC.

## A Component Unit of the University of Louisville

## Auditor's Report and Financial Statements
## June 30, 2014 and 2013

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

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

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# Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic 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 and Affiliated Corporations.

## 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, 2014 and 2013, 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 2014 the Association implemented the provisions of Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which changed its method of accounting for bond issuance costs through retroactive application to prior years' financial statements. 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 pension 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
September 29, 2014

## 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, 2014, 2013, and 2012. 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 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 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 joined in July 2014.

The Association continues to support the athletic achievements of the students by expanding and improving the facilities. During the fiscal year ended June 30, 2014, the Association completed the renovations on the Ulmer Softball Stadium and continued construction on the Dr. Mark and Cindy Lynn Soccer Stadium (Soccer Stadium), a state-of-the-art soccer facility that will seat 5,300 spectators. Currently, the Association is raising funds to build a $14.0 million Academic Center near the Papa John's Cardinal Stadium complex (Stadium).

The Association continues to invest in the academic achievement and community involvement of the student-athletes. Nine teams had perfect scores of 1,000 on the NCAA's 2012-13 Academic Progress Rating. Additionally, 19 of 23 teams had team grade point averages 3.0 or higher.

**Financial Highlights**

The Association's financial position at June 30, 2014 is characterized by the following:

- Total assets were $266.2 million, an increase of $7.3 million, or 3%, from June 30, 2013. The most significant increase was in capital assets, net, which increased $16.5 million, due mainly to the renovations of the Ulmer Softball Stadium and the construction of the Dr. Mark and Cindy Lynn Soccer Stadium.

- Total liabilities were $133.7 million, a decrease of $6.6 million, or 5%, compared to June 30, 2013, due mainly to normal principal payments on outstanding debt of $6.6 million.

- Net position, which represents the residual interest in assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, was $132.3 million, an increase of $14.1 million compared to June 30, 2013.

- Operating revenues amounted to $49.2 million and when offset by operating expenses of $83.8 million, an operating loss of $34.6 million resulted. The operating loss was offset by net nonoperating revenues of $48.7 million resulting in an increase in net position of $14.1 million for the year ended June 30, 2014.

- Net nonoperating revenues of $48.7 million consisted of $42.0 million in gifts, $2.7 million in net realized and unrealized gains and investment returns and $6.7 million of other net revenues, offset by $2.7 million of interest on capital related debt.

As of June 30, 2014, assets exceed liabilities by a ratio of 2 to 1, consistent with the prior year. The Association's most significant asset, the Stadium, is reflected at its historic cost of $150.9 million less $38.1 million in accumulated depreciation for a net capitalized value of $112.8 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 inflows and outflows of resources. Net position, the difference between total assets, total deferred outflows of resources, 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, 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, 2014, 2013, and 2012 are as follows:

**Condensed Statements of Net Position**
**June 30, 2014, 2013, and 2012**
**(In Thousands)**

| | 2014 | Restated 2013 | Restated 2012 | 2014 - 2013 Change | 2013 - 2012 Change |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets | $ 46,628 | $ 47,476 | $ 47,386 | $ (848) | $ 90 |
| Long-term investments | 34,314 | 32,710 | 37,175 | 1,604 | (4,465) |
| Capital assets, net | 154,147 | 137,599 | 134,452 | 16,548 | 3,147 |
| Other | 31,138 | 41,082 | 27,402 | (9,944) | 13,680 |
| Total assets | 266,227 | 258,867 | 246,415 | 7,360 | 12,452 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 48 | 37 | 51 | 11 | (14) |
| **LIABILITIES** | | | | | |
| Current liabilities | 51,317 | 48,569 | 45,075 | 2,748 | 3,494 |
| Noncurrent liabilities | 82,379 | 91,689 | 84,324 | (9,310) | 7,365 |
| Total liabilities | 133,696 | 140,258 | 129,399 | (6,562) | 10,859 |
| **DEFERRED INFLOWS OF RESOURCES** | 304 | 452 | 552 | (148) | (100) |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 92,999 | 76,328 | 66,660 | 16,671 | 9,668 |
| Restricted - nonexpendable | 1,656 | 1,538 | 1,421 | 118 | 117 |
| Restricted - expendable | 24,392 | 27,312 | 29,301 | (2,920) | (1,989) |
| Unrestricted | 13,228 | 13,016 | 19,133 | 212 | (6,117) |
| Total net position | $ 132,275 | $ 118,194 | $ 116,515 | $ 14,081 | $ 1,679 |

## Assets

Current assets of $46.6 million represent 18% of total assets. These assets mainly consist of $33.4 million in cash and cash equivalents, $6.3 million in deposits with bond trustees, and $6.1 million in accounts and contributions receivable. Current assets decreased by $0.8 million, as the $2.6 million decrease in cash and cash equivalents was offset by the $1.1 million increase in accounts and contributions receivable. The increase in accounts and contributions is a result of increased focus on various capital projects.

The remaining $219.6 million, or 82% of total assets, is classified as noncurrent. The Association's most significant long-term assets are $154.1 million in net capital assets, $34.3 million in investments held with the University of Louisville Foundation, Inc. (Foundation), and $20.9 million in accounts and contributions receivable. Noncurrent assets increased $8.2 million compared to the prior year, due mainly to an increase in capital assets, net. The increase is due primarily to the $18.3 million of construction in progress related to the Soccer Stadium, offset by depreciation. Accounts and contributions receivable, net increased $4.0 million due to an additional $10.7 million in capital pledges, offset by $5.2 million in pledge payments. These increases were offset by the decrease in restricted cash and cash equivalents of $13.5 million, as the proceeds from the loan obtain in the prior year were used to fund capital projects.

## Liabilities

Current liabilities were $51.3 million at June 30, 2014, representing an increase of $2.7 million over prior year. This consists primarily of $35.1 million held for advanced ticket sales and sponsorships. Advances were consistent with the prior year, increasing only $0.5 million over the prior year. Accounts payable and accrued liabilities increased $1.4 million over the prior year as new capital projects contributed to increased construction payables of $1.3 million. The current portion of bonds payable increased $1.8 million due to the timing of scheduled principal payments.

Noncurrent liabilities were $82.4 million, or 62% of total liabilities, at June 30, 2014. The most significant noncurrent liability consists of $61.0 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 decreased $9.3 million, or 10%, when compared to the prior year due principally to the $6.6 million in scheduled debt payments and the reclassification of upcoming payments to current bonds payable. Additionally, unearned compensation decreased $1.0 million due mainly to changes in contractual obligations of the Association.

## 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 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 outflows or inflows of resources. In total, the fair market values related to the derivatives decreased by $171 thousand, with the fair value of the interest rate swap reclassified to a deferred outflow of resources due to its negative position of $23 thousand.

The Association reports as deferred outflows of resources the loss on refunding of the bonds related to the Stadium refunded in 2008, with a balance of $25 thousand as of June 30, 2014.

**Net Position**

Total net position of $132.3 million as of June 30, 2014 is reported in the following categories: net investment in capital assets, $93.0 million (70%); restricted-nonexpendable, $1.7 million (1%); restricted-expendable, $24.4 million (19%); and unrestricted, $13.2 million (10%).

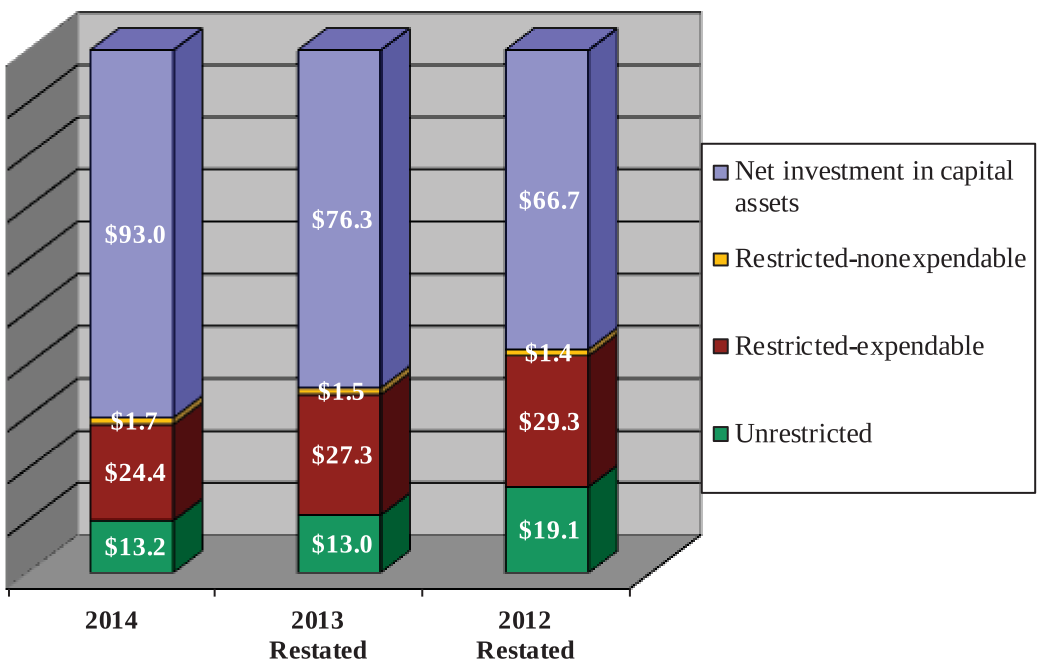
Net investment in capital assets primarily represents the net investment in the Stadium. The increase of $16.7 million relates mainly to additional construction in progress of $19.5 million and the additions in buildings of $1.6 million.

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, 2013, restricted-expendable net position decreased $2.9 million, due to the use of funds to make scheduled debt service payments.

Unrestricted net position remained consistent with the prior year, increasing $0.2 million as compared to the prior year balance of $13.0 million.

A graphic illustration of net position as of June 30, 2014, 2013, and 2012 is as follows:

**Net Position**
**June 30, 2014, 2013, and 2012**




**Fiscal Year 2013**

Total assets at June 30, 2013 were $258.9 million, an increase of $12.5 million compared to the $246.4 million as of June 30, 2012. Noncurrent assets increased $12.4 million as the Association received $15.0 million in cash from the issuance of a term loan to fund ongoing capital projects, including the 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.

Deferred outflows of resources represent the unamortized portion of the loss on refinancing of the debt associated with the Stadium. The change from the prior year is due to the amortization of the loss over the remaining life of the debt.

Liabilities at June 30, 2013 were $140.3 million as compared to $129.4 million as of June 30, 2012. Advances increased $2.0 million over the prior year, due primarily to the $1.5 milion increase in football season ticket sold for the upcoming football season. 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 at June 30, 2013 of $0.5 million relate to the fair market value of derivatives associated with the Association's debt.

Net position at June 30, 2013 was $118.2 million, an increase of $1.6 million over the June 30, 2012 net position. The increase in net investment in capital assets of $9.7 million was partially offset by the $6.1 million decrease in unrestricted net position. The decrease in unrestricted net position relates to the decrease of the unrestricted investments in the Foundation, resulting from the use of investment funds to support the University and fulfill planned contract requirements.

**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, 2014, 2013 and 2012 are as follows:

**Condensed Statements of Revenues, Expenses and Changes in Net Position**
**Years ended June 30, 2014, 2013, and 2012**
**(In Thousands)**

| | 2014 | Restated 2013 | Restated 2012 | 2014 - 2013 Change | 2013 - 2012 Change |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Sports | $ 40,309 | $ 36,653 | $ 34,783 | $ 3,656 | $ 1,870 |
| Other operating revenues | 8,846 | 9,225 | 7,201 | (379) | 2,024 |
| Total operating revenues | 49,155 | 45,878 | 41,984 | 3,277 | 3,894 |
| **OPERATING EXPENSES** | | | | | |
| Sports | 49,701 | 46,117 | 41,723 | 3,584 | 4,394 |
| Other operating expenses | 29,750 | 30,041 | 25,807 | (291) | 4,234 |
| Depreciation | 4,353 | 4,201 | 4,126 | 152 | 75 |
| Total operating expenses | 83,804 | 80,359 | 71,656 | 3,445 | 8,703 |
| Operating loss | (34,649) | (34,481) | (29,672) | (168) | (4,809) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Gifts | 41,998 | 37,088 | 29,556 | 4,910 | 7,532 |
| Net realized and unrealized gain/(loss) on investments | 2,231 | 1,177 | (2,624) | 1,054 | 3,801 |
| Investment returns | 450 | 373 | 609 | 77 | (236) |
| Other nonoperating expenses | (2,577) | (2,619) | (2,802) | 42 | 183 |
| Transfers from related entities | 6,628 | 141 | 5,031 | 6,487 | (4,890) |
| Net nonoperating revenues | 48,730 | 36,160 | 29,770 | 12,570 | 6,390 |
| Increase in net position | 14,081 | 1,679 | 98 | 12,402 | 1,581 |
| **NET POSITION** | | | | | |
| Net position-beginning of year | - | - | 117,213 | | |
| Adjustment applicable to prior years | - | - | (796) | | |
| Net position-beginning of year, restated | 118,194 | 116,515 | 116,417 | 1,679 | 98 |
| Net position-end of year | $ 132,275 | $ 118,194 | $ 116,515 | $ 14,081 | $ 1,679 |

## Operating Revenues

Total operating revenues were $49.2 million and $45.9 million for the years ended June 30, 2014 and 2013, respectively. Income from sports programs, primarily from football and basketball ticket sales, comprised $40.3 million, or 82% of total operating revenues for the year. Other operating revenues amounting to $8.9 million and $9.2 million for the years ended June 30, 2014 and 2013, respectively, include revenues from sources such as concession sales, parking and facilities rentals, and media contracts. Operating revenues increased $3.3 million, or 7%, due to the increase in football revenue, resulting from additional season ticket sales and contractual receipts.

## Operating Expenses

Total operating expenses were $83.8 million and $80.4 million for the years ended June 30, 2014 and 2013, respectively. For the year ended June 30, 2014, expenses consist mainly of $49.7 million in direct sports-related expenses. The remaining $34.1 million in operating expenses consist mainly of support services of $8.1 million; marketing and development of $6.1 million; and administrative expenses of $6.4 million. The depreciation expense of $4.4 million is associated primarily with the Stadium.

Total operating expenses increased by $3.4 million, or 4%, in the current year due mainly to expenses related to the $3.6 million increase in direct sports-related expenses, which consists primarily of $1.8 million of additional contractual obligations and increases in salaries and benefits of $0.7 million, travel expenses of $0.6 million and scholarship expenses of $0.6 million.

**Operating Loss, Nonoperating Revenues and the Increase in Net Position**

The Association's loss from operations amounted to $34.6 million and $34.5 million for the years ended June 30, 2014 and 2013, respectively. During the fiscal year ended June 30, 2014, the operating loss was offset by the $48.7 million in nonoperating revenues leaving an increase in net position of $14.1 million. This is an increase of $12.5 million as compared to the $1.6 million increase in net position realized during the fiscal year ended June 30, 2013.

Overall, nonoperating revenues increased $12.6 million, or 35%. Capital gifts increased $6.2 million due to the increased number of campaigns to support the capital projects including $4.2 million for the Soccer Stadium and $2.5 million for the Schnellenberger Football complex. The $6.5 million increase in transfers from related entities includes the transfer of $6.7 million gift received by the Foundation on behalf of the Association.

**Fiscal Year 2013**

The Association had an increase in net position for the year ended June 30, 2013 of $1.6 million, compared to the $98 thousand increase for the fiscal year ended June 30, 2012. Operating revenues increased $3.9 million due to the increase in football as the season had one more home game. At the same time, operating expenses increased by $8.7 million, or 12%, due to increases in expenses related to direct sports expenses of $4.4 million, primarily related to increased compensation expenses. 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.

Overall, nonoperating revenues increased $6.4 million, or 21%, compared to the fiscal year ended June 30, 2012. 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.

**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, 2014, 2013 and 2012 is as follows:

**Condensed Statements of Cash Flows**
**Years ended June 30, 2014, 2013, and 2012**
**(In Thousands)**

| | 2014 | 2013 | 2012 | 2014 - 2013 Change | 2013 - 2012 Change |
|---|---|---|---|---|---|
| Cash (used)/provided by: | | | | | |
| Operating activites | $ (31,453) | $ (27,739) | $ (26,221) | $ (3,714) | $ (1,518) |
| Noncapital financing activities | 35,874 | 29,814 | 33,638 | 6,060 | (3,824) |
| Capital financing activities | (21,543) | 5,222 | (7,721) | (26,765) | 12,943 |
| Investing activities | 1,046 | 5,695 | (2,327) | (4,649) | 8,022 |
| Net increase/(decrease) in cash and cash equivalents | (16,076) | 12,992 | (2,631) | (29,068) | 15,623 |
| Cash and cash equivalents, beginning of year | 59,391 | 46,399 | 49,030 | 12,992 | (2,631) |
| Cash and cash equivalents, end of year | $ 43,315 | $ 59,391 | $ 46,399 | $ (16,076) | $ 12,992 |

## Operating Activities

The Association's cash and cash equivalents decreased by $16.1 million during the year. The Association experienced a net outflow of $31.5 million in cash paid for operations, an increase of $3.7 million, or 13% compared to the fiscal year ended June 30, 2013. Cash provided from NCAA distributions decreased $4.0 million as the prior year included additional distributions related to basketball tournament standings and football bowl games.

## Other Activities

Cash provided by noncapital and related financing activities of $35.9 million offset the cash used by operating activities. These cash flows consist primarily of $29.2 million in gifts received to support the sports programs. Cash used by capital financing activities relates mainly to the $20.2 million of cash used to purchase capital assets and the $9.4 million of cash used for principal and interest payments on long-term liabilities.

Cash provided by investing activities was $1.0 million, compared to $5.7 million 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.

## Fiscal Year 2013

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.

Cash provided by noncapital and related financing activities consists 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.

**Economic Factors that May Affect Future Periods**

The Association's budgetary goals for the current year include beginning competition in the Atlantic Coast Conference, planning for the next several capital construction projects, such as the Academic Center and the Schnellenberger Football complex. Additionally, the intention is to grow merchandising and licensing programs to become more visible, both nationally and internationally. The Association has met extensively with the new conference administration and used those discussions as a basis for estimated revenue from the conference.

The Association's Board of Directors approved a balanced operating budget for the 2015 fiscal year. The balanced budget calls for $86.3 million in revenues and expenses, a 12% increase over the original 2014 fiscal year budget of $77.2 million. The budget includes an increase in football revenue of 35%, due primarily to budgeted additional media revenue of $9.5 million. On the expenses, budgeted debt service from operations increased to $7.4 million, from $3.2 million budgeted for the 2014 fiscal year due to scheduled payment increases.

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, 2014 and 2013**
**(In Thousands)**

| | 2014 | Restated 2013 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 33,411 | $ 35,984 |
| Deposits with bond trustee | 6,347 | 6,310 |
| Accounts and contributions receivable, net | 6,079 | 5,001 |
| Other assets | 791 | 181 |
| Total current assets | 46,628 | 47,476 |
| Noncurrent Assets: | | |
| Restricted cash | 9,904 | 23,407 |
| Deposit with bond trustee | - | 320 |
| Accounts and contributions receivable, net | 20,930 | 16,903 |
| Investments held with University of Louisville Foundation, Inc. | 34,314 | 32,710 |
| Other long-term assets | 304 | 452 |
| Capital assets, net | 154,147 | 137,599 |
| Total noncurrent assets | 219,599 | 211,391 |
| Total assets | 266,227 | 258,867 |
| **DEFERRED OUTFLOWS OF RESOURCES** | 48 | 37 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | 7,150 | 5,790 |
| Unearned compensation and wages payable | 529 | 1,233 |
| Advances | 35,072 | 34,594 |
| Note payable to University of Louisville Foundation, Inc. | - | 200 |
| Bonds and note payable | 8,566 | 6,752 |
| Total current liabilities | 51,317 | 48,569 |
| Noncurrent Liabilities: | | |
| Due to University of Louisville | 9,173 | 9,173 |
| Due to University of Louisville Foundation, Inc. | 316 | 316 |
| Unearned compensation and wages payable | 6,414 | 7,441 |
| Note payable to University of Louisville Foundation, Inc. | 1,000 | 1,000 |
| Advances | 3,541 | 3,344 |
| Other long-term liabilities | 944 | 860 |
| Bonds and note payable | 60,991 | 69,555 |
| Total noncurrent liabilities | 82,379 | 91,689 |
| Total liabilities | 133,696 | 140,258 |
| **DEFERRED INFLOWS OF RESOURCES** | 304 | 452 |
| **NET POSITION** | | |
| Net investment in capital assets | 92,999 | 76,328 |
| Restricted: | | |
| Nonexpendable | | |
| Scholarships and fellowships | 1,656 | 1,538 |
| Expendable | | |
| Scholarships and fellowships | 762 | 724 |
| Institutional support | 1,919 | 1,986 |
| Capital projects | 8,266 | 4,672 |
| Debt service | 13,445 | 19,930 |
| Unrestricted | 13,228 | 13,016 |
| Total net position | $ 132,275 | $ 118,194 |

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, 2014 and 2013**
**(In Thousands)**

| | 2014 | Restated 2013 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Sports: | | |
| Basketball | $ 16,704 | $ 16,584 |
| Football | 22,412 | 18,662 |
| Other sports | 1,193 | 1,407 |
| Total sports | 40,309 | 36,653 |
| Papa John's Cardinal Stadium | 525 | 658 |
| Marketing & development | 5,647 | 5,397 |
| Administration | 1,212 | 1,687 |
| Support services | 576 | 503 |
| Other operating revenues | 886 | 980 |
| Total operating revenues | 49,155 | 45,878 |
| **OPERATING EXPENSES** | | |
| Sports: | | |
| Basketball | 12,069 | 10,789 |
| Football | 16,488 | 16,154 |
| Other sports | 21,144 | 19,174 |
| Total sports | 49,701 | 46,117 |
| Papa John's Cardinal Stadium | 1,241 | 1,155 |
| Marketing & development | 6,119 | 7,113 |
| Administration | 6,417 | 6,935 |
| Support services | 8,125 | 8,187 |
| Game management/facilities operations | 2,758 | 2,809 |
| Depreciation | 4,353 | 4,201 |
| Other operating expenses | 5,090 | 3,842 |
| Total operating expenses | 83,804 | 80,359 |
| Operating loss | (34,649) | (34,481) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Gifts | 29,043 | 30,306 |
| Investment returns | 450 | 373 |
| Net realized and unrealized gain on investments | 2,231 | 1,177 |
| Interest on capital related debt | (2,664) | (2,725) |
| Other nonoperating revenues | 87 | 106 |
| Net nonoperating revenues | 29,147 | 29,237 |
| Capital gifts | 12,955 | 6,782 |
| Transfers from related entities | 6,628 | 141 |
| Total other revenues | 48,730 | 36,160 |
| Increase in net position | 14,081 | 1,679 |
| **NET POSITION** | | |
| Net position-beginning of year, as previously reported | - | 117,241 |
| Adjustment applicable to prior year | - | (726) |
| Net position-beginning of year, as restated | 118,194 | 116,515 |
| Net position-end of year | $ 132,275 | $ 118,194 |

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, 2014 and 2013**
**(In Thousands)**

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Ticket sales | $ 25,508 | $ 26,611 |
| NCAA distributions | 8,887 | 12,914 |
| Payments to suppliers | (29,790) | (31,010) |
| Payments to employees | (33,503) | (32,315) |
| Payments for utilities | (15) | (27) |
| Payments for benefits | (5,716) | (5,384) |
| Payments for scholarships and fellowships | (13,188) | (12,577) |
| Other athletic program receipts, net | 16,364 | 14,049 |
| Net cash used by operating activities | (31,453) | (27,739) |
| | | |
| **CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Gifts | 29,246 | 29,673 |
| Transfers from related entities | 6,628 | 141 |
| Net cash provided by noncapital and related financing activities | 35,874 | 29,814 |
| | | |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | | |
| Principal paid on loan payable to the University of Louisville Foundation, Inc. | (200) | (200) |
| Capital gifts received | 7,973 | 5,280 |
| Proceeds from issuance of bonds | - | 15,000 |
| Purchases of capital assets | (20,217) | (5,886) |
| Principal paid on bonds payable | (6,649) | (6,415) |
| Interest paid on bonds payable | (2,733) | (2,816) |
| Deposits with bond trustee | 283 | 259 |
| Net cash (used)/provided by capital financing activities | (21,543) | 5,222 |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales and maturities of investments | 1,121 | 6,435 |
| Purchase of investments | (259) | (935) |
| Interest on investments | 184 | 195 |
| Net cash provided by investing activities | 1,046 | 5,695 |
| | | |
| Net (decrease)/increase in cash and cash equivalents | (16,076) | 12,992 |
| Cash and cash equivalents - beginning of year | 59,391 | 46,399 |
| Cash and cash equivalents - end of year | $ 43,315 | $ 59,391 |
| | | |
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (34,649) | $ (34,481) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation | 4,353 | 4,201 |
| Loss on disposal of equipment | 548 | 21 |
| Change in assets and liabilities: | | |
| Accounts and contributions receivable, net | 186 | 1,151 |
| Other assets | (611) | 765 |
| Accounts payable and accrued liabilities | 340 | (282) |
| Advances | 165 | 1,248 |
| Unearned compensation and wages payable | (1,846) | (441) |
| Other long-term liabilities | 61 | 79 |
| Net cash used by operating activities | $ (31,453) | $ (27,739) |
| | | |
| **SUPPLEMENTAL CASH FLOW INFORMATION** | | |
| Capital asset additions in accounts payable | $ 2,930 | $ 1,698 |

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 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.

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 internally. 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

As of June 30, 2014 and 2013, deposits with bond trustees consist of cash and investments in governmental securities and a repurchase agreement totaling $6.3 million and $6.6 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 statements 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.

The Association capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred for the years ended June 30, 2014 and 2013 was (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Interest capitalized | $ 267 | |
| Interest charged to expenses | 2,664 | $ 2,725 |
| Total interest incurred | $ 2,931 | $ 2,725 |

g. 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 consist of loss on bond refinancing and the fair market value of derivatives. Deferred outflows of resources related to the loss on bond refinancing will be amortized to interest expense evenly over the remaining life of the refinanced debt.

Deferred inflows of resources consist of the fair market value of derivatives. As the derivatives are considered effective hedging instruments, changes in the fair market value of derivatives are recognized as deferred inflows of resources.

h. Unearned Compensation Expenses

Unearned 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 $38.6 million and $37.9 million at June 30, 2014 and 2013, 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 2013 amounts have been reclassified to conform with the 2014 presentation. These reclassifications had no effect on the change in net position.

q. Change in Accounting Principle

During the fiscal year ended June 30, 2014, the Association adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in the financial statement presentations.

Adoption of GASB 65 resulted in a decrease of $726,000 in net position as of July 1, 2012 and an increase in the increase in net position of $71,000 for the year ended June 30, 2013. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from application of GASB 65 are the reclassification of the $51,000 of deferred losses from the refunding of debt to deferred outflows of resources.

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):

| | **2014** | **2013** |
|---|---|---|
| Deposits | $ 43,315 | $ 59,391 |
| Investments | | |
| U.S. Treasury obligations | 2,519 | 2,401 |
| Repurchase agreement | 3,828 | 4,229 |
| Investments held with the University of Louisville Foundation, Inc. | 34,314 | 32,710 |
| | $ 83,976 | $ 98,731 |
| Included in the following statements of net position captions: | | |
| Cash and cash equivalents | $ 33,411 | $ 35,984 |
| Deposit with bond trustee-current | 6,347 | 6,310 |
| Restricted cash | 9,904 | 23,407 |
| Deposit with bond trustee-noncurrent | - | 320 |
| Investments held with the University of Louisville Foundation, Inc. | 34,314 | 32,710 |
| | $ 83,976 | $ 98,731 |

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, 2014 and 2013 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, 2014 and 2013, the Association had the following investments subject to interest rate risk (in thousands):

**June 30, 2014**

| | | Maturities in years | | | |
|---|---|---|---|---|---|
| Type | Fair Value | Less than 1 | 1-5 | 6-10 | More than10 |
| U.S. Treasury obligations | $ 2,519 | $ 1,009 | $ 1,510 | | |
| Repurchase agreement | 3,828 | 657 | 1,309 | $ 978 | $ 884 |
| | $ 6,347 | $ 1,666 | $ 2,819 | $ 978 | $ 884 |

**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 |

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, 2014 and 2013, the $34.3 million and $32.7 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, 2014 and 2013 was as follows:

| | 2014 | 2013 |
|---|---|---|
| Investment in partnerships | 60% | 56% |
| Marketable alternatives | 19% | 19% |
| Preferred and common stock | 6% | 11% |
| Mutual funds | 10% | 9% |
| Corporate bonds | 3% | 3% |
| Equity method investments | 1% | 1% |
| 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, 2014 or 2013.

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, 2014 and 2013, 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, 2014 and 2013, the Foundation held funds of the Association of approximately $34.3 million and $32.7 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, 2014 and 2013, 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 each of the years ended June 30, 2014 and 2013, the Association repaid $0.2 million. The outstanding balance was approximately $1.0 million and $1.2 million as of June 30, 2014 and 2013, respectively, of which approximately $0.2 million was shown as current as of June 30, 2013.

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, 2014 and 2013.

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 for each of the years ended June 30, 2014 and 2013, respectively. Additionally, the University collects certain fees from students designated for use by the Association. The University transferred $2.0 million and $1.9 million of student fees collected for the years ended June 30, 2014 and 2013, respectively. During the year ended June 30, 2013, the Association transferred $2.0 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 $1.6 million and $1.5 million related to capital projects and debt service payments during the fiscal years ended June 30, 2014 and 2013, respectively. During the fiscal years ended June 30, 2014 and 2013, the University transferred to the Association $0.9 million and $0.8 million, respectively, in pledge receipts 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 to the University for the year ended June 30, 2013, related to other transactions.

During the year ended June 30, 2014, the Association received $7.0 million from the Foundation related to gifts received by the Foundation on the Association's behalf. The Association also transferred $3.8 million to the Foundation to support the operations of the golf facility purchased by the Foundation during the year end June 30, 2014.

4. Accounts and Contributions Receivable, Net

Accounts and contributions receivable as of June 30, 2014 and 2013 are as follows (in thousands):

| 2014 | Gross | Allowance | Net |
|---|---|---|---|
| Trade receivables | $ 1,474 | | $ 1,474 |
| Contributions receivable | 28,215 | $ (2,176) | 26,039 |
| Total | $ 29,689 | $ (2,176) | 27,513 |
| Less: Discount | | | (504) |
| Current portion | | | 6,079 |
| Non current portion | | | $ 20,930 |

| 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 |

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, 2014 and 2013 are due to be received as follows (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Less than one year | $ 5,715 | $ 4,284 |
| One to three years | 9,303 | 7,190 |
| Greater than three years | 13,197 | 11,356 |
| Subtotal | 28,215 | 22,830 |
| Less: discount | (504) | (630) |
| Less: allowance | (2,176) | (1,955) |
| Net contributions receivable | $ 25,535 | $ 20,245 |

5. Capital Assets, Net

Capital assets as of June 30, 2014 and 2013 are as follows and on the following page (in thousands):

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Retire-ments | Transfers | Ending Balance |
| **Cost-Nondepreciable** | | | | | |
| Land | $ 5,151 | | | | $ 5,151 |
| Construction in progress | 2,965 | $ 19,523 | | $ (4,103) | 18,385 |
| Subtotal | 8,116 | 19,523 | | (4,103) | 23,536 |
| **Cost-Depreciable** | | | | | |
| Buildings | 160,880 | 1,577 | $ (731) | 4,103 | 165,829 |
| Land improvements | 2,435 | 213 | - | - | 2,648 |
| Equipment | 1,724 | 136 | (6) | - | 1,854 |
| Leasehold improvements | 1,299 | - | - | - | 1,299 |
| Subtotal | 166,338 | 1,926 | (737) | 4,103 | 171,630 |
| Total capital assets-cost | 174,454 | 21,449 | (737) | - | 195,166 |
| **Accumulated depreciation** | | | | | |
| Buildings | 34,878 | 4,096 | (184) | - | 38,790 |
| Land improvements | 248 | 62 | - | - | 310 |
| Equipment | 1,118 | 137 | (5) | - | 1,250 |
| Leasehold improvements | 611 | 58 | - | - | 669 |
| Subtotal | 36,855 | 4,353 | (189) | - | 41,019 |
| Capital assets, net | $ 137,599 | $ 17,096 | $ (548) | $ - | $ 154,147 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Retire-ments | Transfers | Ending Balance |
| **Cost-Nondepreciable** | | | | | |
| Land | $ 5,151 | | | | $ 5,151 |
| Construction in progress | 356 | $ 6,276 | | $ (3,667) | 2,965 |
| Subtotal | 5,507 | 6,276 | | (3,667) | 8,116 |
| **Cost-Depreciable** | | | | | |
| Buildings | 156,272 | 941 | | 3,667 | 160,880 |
| Land improvements | 2,435 | - | | - | 2,435 |
| Equipment | 1,663 | 152 | $ (91) | - | 1,724 |
| Leasehold improvements | 1,299 | - | - | - | 1,299 |
| Subtotal | 161,669 | 1,093 | (91) | 3,667 | 166,338 |
| Total capital assets-cost | 167,176 | 7,369 | (91) | - | 174,454 |
| **Accumulated depreciation** | | | | | |
| Buildings | 30,931 | 3,947 | - | - | 34,878 |
| Land improvements | 188 | 60 | - | - | 248 |
| Equipment | 1,053 | 135 | (70) | - | 1,118 |
| Leasehold improvements | 552 | 59 | - | - | 611 |
| Subtotal | 32,724 | 4,201 | (70) | - | 36,855 |
| Capital assets, net | $ 134,452 | $ 3,168 | $ (21) | $ - | $ 137,599 |

6. Bonds and Notes Payable

Bonds and notes payable as of June 30, 2014 and 2013 are summarized as follows and on the following page (in thousands):

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Retire-ment | Ending Balance | Current Portion | Noncurrent Portion |
| Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008A Interest rates of 4.0% to 5.0% Final maturity in 2018 | $ 24,805 | $ (4,570) | $ 20,235 | $ 4,750 | $ 15,485 |
| Louisville/Jefferson County Metro Government Revenue Refunding and Improvement Bonds, Series 2008B Interest rates of 3.8% to 4.8% Final maturity in 2028 | 34,865 | (1,740) | 33,125 | 1,800 | 31,325 |
| Note payable, interest rate of 4.8% Secured by scoreboard equipment and fixtures. Final maturity in 2017 | 1,469 | (339) | 1,130 | 358 | 772 |
| 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 | 15,000 | - | 15,000 | 1,579 | 13,421 |
| Total bonds payable | 76,139 | (6,649) | 69,490 | 8,487 | 61,003 |
| Plus unamortized net premium | 168 | (101) | 67 | 79 | (12) |
| Bonds payable, net | $ 76,307 | $ (6,750) | $ 69,557 | $ 8,566 | $ 60,991 |

| | 2013 (Restated) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 288 | - | (120) | 168 | 101 | 67 |
| Bonds payable, net | $ 67,842 | $ 15,000 | $ (6,535) | $ 76,307 | $ 6,752 | $ 69,555 |

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 |
|---|---|---|---|
| 2015 | $ 8,487 | $ 2,748 | $ 11,235 |
| 2016 | 8,639 | 2,425 | 11,064 |
| 2017 | 8,711 | 2,090 | 10,801 |
| 2018 | 18,152 | 1,705 | 19,857 |
| 2019 | 2,100 | 1,146 | 3,246 |
| 2020 - 2024 | 11,870 | 4,354 | 16,224 |
| 2025 - 2029 | 11,531 | 1,427 | 12,958 |
| Total | $ 69,490 | $ 15,895 | $ 85,385 |

Association revenue is pledged for the payment of the Metro Government Stadium expansion bonds (Series 2008), 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 $84.2 million, with annual requirements ranging from $3.2 million in 2028 to $19.9 million in 2018. For the current year, principal and interest paid by the Association and the total pledged revenue recognized were $9.2 million and $85.6 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, 2014, 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% | $ (23) |
| Forward delivery agreement | Earn a higher rate of return than investments with shorter life | $ 1,510 | 08/05/08 | 03/01/18 | Receive 6.4% on balance of scheduled reserve amount | $ 304 |

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, 2014, the fair value of the Forward Delivery Agreement decreased approximately $68,000. 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 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 liabilities 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, 2014, the decrease in fair value of the Interest Rate Swap was approximately $103,000. 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, 2014. 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, 2014, 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, 2014 and 2013 are summarized as follows (in thousands):

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | 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 |
| Unearned compensation and wages payable | 8,674 | $ 1,790 | $ (3,521) | 6,943 | $ 529 | 6,414 |
| Note payable to University of Louisville Foundation, Inc. | 1,200 | - | (200) | 1,000 | - | 1,000 |
| Advances | 37,938 | 35,312 | (34,637) | 38,613 | 35,072 | 3,541 |
| Other post-employment benefits | 905 | 295 | (150) | 1,050 | 207 | 843 |
| Other long-term liabilities | 117 | 24 | (20) | 121 | 20 | 101 |
| Total | $ 58,323 | $ 37,421 | $ (38,528) | $ 57,216 | $ 35,828 | $ 21,388 |

| | 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 |
| Unearned 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 |

Other long-term liabilities as of June 30, 2014 and 2013 consist of future expenses required by certain pledge agreements and the fair value of certain derivatives. 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, 2014 and 2013.

9. Natural Classification

Operating expenses by natural classification for the years ended June 30, 2014 and 2013 were approximately (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Salaries and wages | $ 31,131 | $ 30,935 |
| Employee benefits | 5,847 | 5,717 |
| Supplies and services | 29,134 | 26,902 |
| Scholarships and fellowships | 13,324 | 12,577 |
| Utilities | 15 | 27 |
| Depreciation | 4,353 | 4,201 |
| | $ 83,804 | $ 80,359 |

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 $1.6 million and $1.5 million during the years ended June 30, 2014 and 2013, 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, 2014 and 2013, the University contributed approximately $1.7 million and $1.0 million, approximately 68% and 56% of total premiums, respectively. Retired Plan members under age 65 receiving benefits contributed approximately $0.8 million, approximately 32% and 44% of total premiums for the years ended June 30, 2014 and 2013, respectively, through their required monthly contributions according to the schedules on the following page:

| 2014 | | | | | |
|---|---|---|---|---|---|
| | PPO | Cardinal Care Plan | EPO | PCA High | PCA Low |
| Employee | $ 389 | $ 459 | $ 431 | $ 279 | $ 208 |
| Employee and Spouse | $ 763 | $ 868 | $ 850 | $ 583 | $ 451 |

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

Medicare-eligible retirees receive a monthly benefit of $108 per individual covered. For the years ended June 30, 2014 and 2013, the University contributed $1.3 million and $1.2 million for Medicare-eligible retirees, respectively.

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):

| | 2014 | 2013 |
|---|---|---|
| Normal cost | $ 4,188 | $ 4,190 |
| AAL amortization | 4,789 | 4,693 |
| Annual required contribution (ARC) | 8,977 | 8,883 |
| Interest on above | 994 | 717 |
| Adjustment to ARC | (1,362) | (880) |
| OPEB liability gain | (1,792) | (3,244) |
| Annual OPEB cost (AOC) | 6,817 | 5,476 |
| Contributions made | (3,048) | (2,221) |
| Increase in net OPEB obligation | 3,769 | 3,255 |
| Net OPEB obligation - beginning of year | 27,300 | 24,045 |
| Net OPEB obligation - end of year | $ 31,069 | $ 27,300 |

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

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2014 | $ 6,817 | 45% | $ 31,069 |
| 2013 | 5,476 | 41% | 27,300 |
| 2012 | 3,337 | 61% | 24,045 |

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, 2014 and 2013, the Association's portion of the AOC was $0.3 million and $0.2 million, respectively. As of June 30, 2014 and 2013, the Association's net OPEB obligation was $1.1 million and $0.9 million, respectively, of which $0.9 million and $0.8 million, respectively, was recorded in other long-term liabilities and $0.2 million and $0.1 million, respectively, was recorded in accounts payable and accrued liabilities.

d. Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $85.3 million and $82.3 million and there were no assets, resulting in an unfunded actuarial accrued liability (UAAL) of $85.3 million and $82.3 million as of June 30, 2014 and 2013, respectively. The covered payroll (annual payroll of active employees covered by the plan) was $445.0 million and $426.8 million, and the ratio of the UAAL to the covered payroll was 19%, for each of the years ended June 30, 2014 and 2013.

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, 2013, 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 7.5 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 13 years. The gains on the benefit obligation recognized during the fiscal years ended June 30, 2014 and 2013 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, 2014 was 23 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, 2014 and 2013 amounted to approximately $61,000 and $55,000, respectively.

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, 2014 and 2013 amounted to approximately $106,000 and $83,000, 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, 2014 and 2013 amounted to approximately $3.5 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, 2014 and 2013 amounted to approximately $0.5 million.

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, 2014 and 2013 amounted to approximately $2.2 million and $2.1 million, respectively.

d. Future Minimum Lease Payments

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

| **For the years ending June 30,** | **Lease Payment Due** |
|---|---|
| 2015 | $ 430 |
| 2016 | 430 |
| 2017 | 430 |
| 2018 | 436 |
| 2019 | 436 |
| 2020 - 2024 | 2,115 |
| 2025 - 2029 | 1,616 |
| 2030 - 2034 | 1,425 |
| 2035 - 2039 | 1,425 |
| 2040 - 2044 | 1,425 |
| Future minimum lease payments | $ 10,168 |

13. Commitments and Contingencies

a. Commitments

At June 30, 2014 and 2013, the Association had approximately $0.7 million and $1.9 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

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 the implementation of these standards will significantly 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) |
|---|---|---|---|---|---|---|
| 7/1/2013 | $ - | $ 85,282 | $ 85,282 | 0% | 444,970 | 19% |
| 7/1/2012 | - | 82,260 | 82,260 | 0% | 426,752 | 19% |
| 7/1/2011 | - | 79,912 | 79,912 | 0% | 416,016 | 19% |