louisville arena authority

Date: October 19, 2022

To: Members of the Capital Projects and Bond Oversight Committee ("CPBOC"), Attn: Katherine Halloran and Governor Andy Beshear

From: Leslie Geoghegan, Chair, Louisville Arena Authority (the "LAA" or the "Corporation")
Tom Liston, Chair, Louisville Arena Authority Finance Committee

Re: Louisville Arena Authority's CPBOC Report

The purpose of this memo is to satisfy the Corporation's annual requirement pursuant to Section 8.22 of the Loan Agreement and KRS 65.4931 as listed below:

> ***Section 8.22. Compliance with KRS 65.4931.*** *The Corporation shall comply with the requirements of KRS 65.4931 for so long as any Bond is Outstanding under the Bond Indenture, including (i) providing CPBOC a CPBOC Report on or before November 1st each year; and (ii) if the Corporation has not directed the Bond Trustee to redeem Outstanding Bonds within any Redemption Test Period as required by KRS 65.4931(3), the final CPBOC Report for such Redemption Test Period shall contain an Alternative Payment Plan regarding the Corporation's use of Excess Revenues. The Corporation shall provide the Bond Insurer and the Bond Trustee a copy of each CPBOC Report provided to CPBOC pursuant to KRS 65.4931.*

The Corporation is currently in a Redemption Test Period which began on the closing date of the Series 2017 bonds and ends on (but excludes) November 1, 2022. The Corporation and its Board of Trustees propose an Alternative Prepayment Plan effective on or after December 1, 2022 to direct the Bond Trustee to redeem Outstanding Bonds in the amount of $30,900,000. The Corporation and Board intend to continue applying excess revenues thereafter in accordance with the Bond Trust Indenture to optionally redeem Outstanding Bonds.

<u>2021 and 2022 Financial Summary</u>

A copy of the LAA's Audited Financial Statements for the period January 1, 2021 to December 31, 2021 is enclosed. The Audited Financial Statements for January 1, 2021 to December 31, 2021 will be prepared by Crowe LLP with expected completion in Spring 2023. The LAA paid $8.4 million in debt service on June 1, 2022 on the Series 2017 Bonds and has funded its $12.5 million payment due December 1, 2022. As of today, the Renovation and Replacement Fund has a balance sufficient to meet capital needs of the Authority.

<u>2022 Operating Summary</u>

During ASM's 2021-2022 Fiscal Year, the Arena hosted 103 events including 29 concerts, 19 UofL men's basketball games, 17 UofL women's basketball games, 5 family shows, 5 sporting events, 5 meetings/banquets, 5 other events and 13 community engagement events.

louisville arena authority

Thank you for your attention on this matter.

Sincerely

Leslie Geoghegan
Chair, Louisville Arena Authority

Attachment:
2021 LAA Audited Financial Statements

LOUISVILLE ARENA AUTHORITY, INC.
Louisville, Kentucky

FINANCIAL STATEMENTS
December 31, 2021 and 2020

LOUISVILLE ARENA AUTHORITY, INC.
Louisville, Kentucky

FINANCIAL STATEMENTS
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Louisville Arena Authority, Inc.
Louisville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Louisville Arena Authority, Inc., which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Louisville Arena Authority, Inc. as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisville Arena Authority, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisville Arena Authority, Inc.'s ability to continue as a going concern for one year from the date the financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisville Arena Authority, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisville Arena Authority, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Emphasis of Matter

There is a high level of uncertainty surrounding the coronavirus outbreak and ongoing pandemic, and its impact to the Authority's financial operations. See Note B – Recent Events, C – Contractual Arrangements and K – Liquidity and Availability of Resources of the notes to the financial statements for additional information. Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
May 25, 2022

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
Cash and cash equivalents	$ 3,750,288	$ 4,440,836
Other receivables	981,866	587,296
Prepaid expenses	221,000	300,392
Assets limited as to use – restricted to bond indenture	68,260,746	81,979,267
Property and equipment, net	306,099,605	308,591,628
Total assets	$ 379,313,505	$ 395,899,419
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 1,247,051	$ 350,625
Accrued expenses and other	3,174,603	3,259,351
Deferred revenues	-	52,691
Note payable	2,500,269	2,901,639
Bonds payable	375,161,019	378,672,349
	382,082,942	385,236,655
Net assets		
Without donor restrictions	(2,769,437)	10,662,764
Total liabilities and net assets	$ 379,313,505	$ 395,899,419

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended December 31, 2021 and 2020

	2021	2020
Operating revenues and support		
Metro Louisville guarantee	$ 10,800,000	$ 10,800,000
Tax increment financing payments	1,233,162	13,369,436
Naming rights revenue	410,000	1,226,478
University of Louisville guarantee	2,420,000	2,420,000
Sponsorship revenue	1,682,081	2,063,391
Suite and premium seating revenue	1,321,460	1,092,120
Debt forgiveness	401,370	-
Capital subsidy	125,000	375,000
Other operating income	120,904	220,983
Total operating revenues and support	18,513,977	31,567,408
Operating expenses		
Depreciation	9,229,436	9,124,852
Professional fees	345,098	367,332
Payments to University of Louisville	1,307,489	1,215,020
Loss from operations contract	3,627,721	2,037,112
Other expenses	383,447	305,057
Total operating expenses	14,893,191	13,049,373
Change in net assets before other revenue (expense)	3,620,786	18,518,035
Interest income (expense)		
Interest income	21,100	377,368
Interest expense	(17,074,087)	(17,086,845)
Total interest income (expense)	(17,052,987)	(16,709,477)
Change in net assets	(13,432,201)	1,808,558
Net assets at beginning of year	10,662,764	8,854,206
Net assets at end of year	$ (2,769,437)	$ 10,662,764

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	$ (13,432,201)	$ 1,808,558
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,423,106	9,328,592
Debt forgiveness of note payable	(401,370)	-
Changes in:		
Other receivables	(394,570)	590,505
Prepaid expenses	79,392	(73,155)
Accounts payable	896,426	(469,788)
Accrued expenses and other	(84,748)	(83,851)
Deferred revenues	(52,691)	(2,293,593)
Net cash from operating activities	(3,966,656)	8,807,268
Cash flows from investing activities		
Purchases of property and equipment	(6,737,413)	(391,137)
Net change in assets limited as to use – restricted to bond indenture	13,718,521	(11,307,141)
Net cash from investing activities	6,981,108	(11,698,278)
Cash flows from financing activities		
Payments on bonds payable	(3,705,000)	-
Net cash from financing activities	(3,705,000)	-
Decrease in cash and cash equivalents	(690,548)	(2,891,010)
Cash and cash equivalents at beginning of year	4,440,836	7,331,846
Cash and cash equivalents at end of year	$ 3,750,288	$ 4,440,836
Supplemental Information		
Cash paid for interest	$ 16,880,417	$ 16,853,409

See accompanying notes to financial statements.

NOTE A – NATURE OF AUTHORITY AND OPERATIONS

Louisville Arena Authority, Inc. ("the Authority") is a Kentucky non-stock, non-profit corporation formed in January 2006. The Authority operates a multi-use arena in Downtown Louisville, Kentucky.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting: The financial statements for the Authority have been prepared on the accrual basis of accounting.

2. 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 amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

3. Cash and Cash Equivalents: The Authority considers all highly liquid investments with a maturity when purchased of three months or less, and which are not designated for a specific purpose, to be cash equivalents. The Authority typically maintains balances in excess of federally insured limits. Cash and cash equivalents without restrictions are included in the statements of cash flows.

4. Investment Valuation and Income Recognition: The Authority's investments are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Realized gains and losses are reported in the change of net assets when securities are sold. Unrealized holding gains, and losses are reported in the change in net assets at period end.

5. Other Receivables: Receivables from the Authority's various funding sources are recorded at their net realizable value based on contractual agreements. The Authority does not charge interest on past due receivables. At December 31, 2021 and 2020, no allowance was recorded as management considered all receivables to be collectible.

6. Assets Limited as to Use: The Authority has established separate accounts to hold assets limited as to use. The senior reserve fund, senior interest fund, bond sinking fund, renovation and replacement fund, excess net cash flow fund, arena revenue fund, TIF revenue fund, and Metro revenue fund are to be funded and utilized as established in the Bond Trust Indenture (See Note D).

7. Property and Equipment: Property and equipment is stated at cost at the date of acquisition or fair value at the date of donation and depreciated on the straight-line basis over the estimated useful lives of the respective assets ranging from 3 to 40 years. Software is being amortized on the straight-line basis over a three-year estimated useful life.

   The Authority reviews for the impairment of long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in accordance with ASC 350 and ASC 360. Specifically, this process involves comparing the Authority's asset carrying values to the estimated undiscounted future cash flows the assets are expected to generate over their remaining lives. If this process were to result in the conclusion that the carrying value of long-lived assets would not be recoverable, then a write down of the assets would be recorded through a charge to earnings equal to the difference in the fair value of the assets and their carrying value. No such impairment losses were recognized for the years ended December 31, 2021 and 2020.

(Continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Bond Issuance Costs: Bond issuance costs are amortized using the effective interest method over the life of the respective bond issues. Amortization expense was $843,629 and $853,700 for years ended December 31, 2021 and 2020, respectively. Bond issuance costs, net of accumulated amortization is included in bonds payable in the accompanying statements of financial position. Net bond issuance costs at December 31, 2021 and 2020 were $12,976,308 and $13,819,937, respectively. The related accumulated amortization at December 31, 2021 and 2020 was $3,404,726 and $2,561,097, respectively. Amortization expense for future years is approximately $832,000 in 2022, $820,000 in 2023, $805,000 in 2024, $790,000 in 2025 and $773,000 in 2026.

9. Deferred Revenues: Deferred revenues represent funds received as deposits for equipment lease revenue, naming rights revenue, and sponsorship revenue that have yet to be recognized as revenue. Deferred revenues related to equipment lease are recognized as income on a straight-line basis over the term of the related agreements. Deferred revenues related to naming rights revenue and sponsorship revenue are recognized as income in the year they are considered earned.

10. Revenue Recognition: The Metro Louisville guarantee and tax increment financing payments are recognized as revenue in the year that they are received. Naming rights, sponsorships, suite and premium seating, and revenue from operations contracts are recognized on a systematic basis as earned over the term of the contracts. See Note C for a description of the contractual arrangements.

11. Income Taxes: The Authority received a ruling from the Internal Revenue Service indicating that it qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes have been provided in the accompanying financial statements. The Kentucky Department of Revenue has granted the Authority exemption from sales tax on purchases made for its exempt purpose and has also issued the Authority an exemption from ad valorem tax as a "purely public charity."

    The Authority has no material uncertain income tax positions which would result in a liability to the Authority. The Authority recognizes interest and/or penalties related to income tax matters in income tax expense. The Authority recognized no interest or penalties on income taxes in its statements of activities and changes in net assets for the years ended December 31, 2021 or 2020. Due to its tax-exempt status, the Authority is not subject to U.S. federal income tax or state income tax.

    The Authority recognizes a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Authority’s open audit periods are 2018 through 2021. The Authority does not expect its unrecognized tax benefits to significantly change in the next 12 months.

12. Recent Events: In March 2020, the World Health Organization declared novel coronavirus disease 2019 (“COVID-19”) as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing requirements in many states and communities, including those in markets in which the Authority is located or does business.

(Continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The extent to which the COVID-19 pandemic continues to impact the Authority's business, liquidity, asset valuations, results of operations, and financial condition will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Shelter in place and limited capacity requirements on events have caused disruption in the revenue for the Authority. Moreover, the effects of the COVID-19 pandemic may have a material adverse effect on the estimates within the Authority's financial statements. In support of debt service, see further discussion of revenue sources and liquidity in Note C – Contractual Arrangements and Note K – Liquidity and Availability of Resources.

13. Subsequent Events: Subsequent events for the Authority have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were issued.

NOTE C – CONTRACTUAL ARRANGEMENTS

1. Event Management Agreement:

AEG Management Louisville, LLC: The Authority entered into an Operations Management Agreement ("Agreement") with AEG Management Louisville, LLC ("AEG") to be the sole, independent manager for the arena with complete authority over and responsibility for its day-to-day operations including its management. The Agreement was effective on July 1, 2012 and has been amended and extended through June 30, 2027. The Agreement may be terminated by either party upon 90 days prior notice.

The fees for this contract include the following: 1) a Fixed Fee of $700,000 for the year adjusted annually up to 1.5% throughout the term of the agreement in accordance with increases in the Consumer Price Index ("CPI") for all Urban Consumers; 2) an Incentive Fee up to $35,000 per year subject to operating results; and 3) signing bonuses of $1,100,000 due in July 2012, $1,000,000 due in May 2016 and $500,000 due in July 2022. The signing bonuses due in July 2012 and May 2016 were amortized from the effective date of the Agreement through the July 31, 2017 termination penalty clause date in the Agreement.

In 2017, the Agreement was amended with the following provisions. The guaranty of $1,500,000 annually was replaced with a Performance Expectation of $1,500,000. In the event AEG does not meet or exceed this Performance Expectation during each of any two consecutive Operating Years, upon notice from the Authority, then AEG may opt, but is not contractually obligated, to cure such shortfall. In the event AEG declines or fails to cure such shortfall, the parties shall meet to negotiate a mutually agreeable reduction to the Fixed Fee for the following Operating Year. In the event that the parties are not able to agree to a reduction to the Fixed Fee, the Authority may terminate the Agreement.

A reconciliation of amounts under the contract for the years ended December 31 is as follows:

	2021	2020
Management fee to AEG	$ (736,762)	$ (730,184)
Operational losses	(2,903,811)	(1,260,473)
Other settlements	12,852	(46,455)
	$ (3,627,721)	$ (2,037,112)

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

2. Galt House Agreement: The Authority has an exchange agreement with the Galt House. The Galt House provided accommodations during the period of construction valued at $386,427 in exchange for the use of a suite in the arena up to the same value as the accommodations provided. During 2021, the Galt House utilized the remaining value attributed to its suite use. The unutilized balance of suite use with a value of $16,756 at December 31, 2020 is included in accrued expenses and other in the accompanying statements of financial position.

3. Humana Agreement: As part of the Definitive Property Sale and Relocation Agreement with Humana, Inc. ("Humana"), the Authority conveyed to Humana the use of a suite in the Arena rent-free for a period of twenty years. Further, Humana was not charged the initial fee and suite build-out charges. At December 31, 2021 and 2020, the value related to the suite was $588,233 and $656,225, respectively, which is included in accrued expenses and other in the accompanying statements of financial position. The amortization period extends through 2028.

4. LASEP, Team Services, and Learfield Agreement: The Authority has an agreement with LASEP, LLC, ("LASEP") and Learfield Corporation, Inc., ("Learfield"), to provide services in connection marketing and sponsorship sales rights relating to the Arena. The agreement has an effective date of March 31, 2008 and was extended through June 30, 2027.

   Under the terms of the agreement, exclusive sponsorship rights have been granted to LASEP by the Authority and are being guaranteed by Learfield. In return for their marketing services, the agreement provides for the allocation of qualified sponsorship payments between LASEP and the Arena.

   In exchange for the exclusive sponsorship rights, LASEP agreed to pay the Authority a qualified sponsorship payment ("QSP") annually. The QSP was calculated as a percentage of gross revenues (as defined per the agreement), or an annual minimum of $2,500,000 for 2016. For the first $4,000,000 of gross revenues (as defined per the agreement), the Authority receives a QSP of 75% of the gross revenues. For gross revenues in excess of $4,000,000, the Authority receives a QSP of 65% of the gross revenues.

   In 2017, the agreement was amended as follows: 1) The Term of the agreement was amended with an effective date of July 1, 2017 through June 30, 2027. 2) The Guaranteed QSP was adjusted to start at $3,750,000, escalating each year up to $5,650,000 in 2026-27. 3) In addition to the QSP, LASEP shall pay the LAA 50% of the annual Adjusted Gross Revenue ("AGR") above the defined AGR Share Hurdle amounts stated in the agreement. 4) LASEP shall make Capital Subsidy Payments totaling $1,625,000 over the life of the amended Term. Capital Subsidy Payments totaled $125,000 and $375,000 in 2021 and 2020, respectively.

5. Naming Rights: The current naming rights agreement with Yum! Brands, Inc. has an effective term from October 1, 2020 through September 30, 2031. The first two years of the contract contain a performance condition based on the number of regular-season, televised University of Louisville varsity men's basketball games in the Arena, and the remaining nine years are based on contractual annual payments. Naming rights revenue recognized in 2021 and 2020 was $410,000 and $1,226,478, respectively.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

6. PARC Agreements: The Authority entered into a Garage Operating Agreement with Parking Authority of River City ("PARC"), expiring September 30, 2044. Under the terms of the agreement, PARC is responsible for the operations and maintenance of the garage. In addition, the agreement specifies parking requirements for basketball games and arena events. Under this agreement, the Authority agreed to pay PARC each fiscal year beginning January 1, 2011, the first $90,000 and 50% of amounts exceeding $90,000 of net revenue received by the Authority related to the sale of naming rights to the garage and sponsorship signage sold in and on the garage. As of December 31, 2021 and 2020, there was no signage in and on the garage.

7. Centerplate Agreement: The Authority has a Concessions and Catering Services Agreement with Service America Corporation, d/b/a Centerplate ("Centerplate"). The agreement provides for Centerplate to be the sole provider of concessions and catering services in the arena. The initial term of the agreement ended December 31, 2020, with the option to be extended for two additional five-year periods at the agreement of both parties. Under the terms of the agreement, Centerplate agrees to pay annual commissions to the Authority based on varying rates of gross receipts (for concessions, catering and merchandise) received at the arena. The new event management contract with AEG effective July 1, 2012 transfers the Centerplate revenue to AEG. The Authority recorded an accrued expense of $1,186,369 to satisfy amounts earned by AEG during the period July 1, 2012 through December 31, 2012 that the Authority had received through the January 1 advance.

   In addition, as part of this agreement, during 2009, Centerplate advanced the Authority $1,000,000. During 2010, Centerplate advanced the Authority an additional $6,500,000, for a total of $7,500,000. This noninterest bearing loan was initially amortized monthly on a straight-line basis over a 15-year period ending in October 2025. For each monthly period that the agreement remains effective from the first public event, Centerplate forgave one-one hundred eightieth (1/180th) of the loan in favor of the Authority.

   Effective December 31, 2020, the agreement was amended as follows: 1) The term of the agreement was extended through December 31, 2021; and 2) The amortization of the loan was suspended for a period of one year, from March 13, 2020 through March 13, 2021, due to the disruption of business from the COVID-19 Pandemic.

   Effective November 15, 2021, the agreement was further amended a follows: 1) The term of the agreement was extended through June 30, 2027; 2) The amortization period over which the remaining balance of the loan is to be forgiven was updated to a 5-year period ending in October 2026; 3) New adjusted gross receipts thresholds and calculations were established for purposes of calculating commissions for the extended term of the agreement beginning in 2022; and 4) Centerplate is required to invest up to $1,200,000 toward certain projects over the extended term of the agreement.

   During the year ended December 31, 2021, Centerplate forgave $401,370 of the loan balance. The outstanding balance of the loan is $2,500,269 and $2,901,639 at December 31, 2021 and 2020, respectively, which is classified as a note payable in the accompanying statements of financial position.

8. ULAA Agreement: The Authority entered into a Lease Agreement with the University of Louisville Athletic Association, Inc. ("ULAA") as of July 3, 2008. The agreement ensures the arena is designed to meet ULAA's needs as the primary tenant and establishes a lease term through September 2044.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

In 2017, the agreement was amended as follows: 1) The Term was adjusted to terminate on the earliest of (i) September 30 of the year in which the commitment of the Commonwealth of Kentucky to pay tax increments to the Authority under the LAA Tax Increment Financing District terminates, (ii) the date of the final payment of the Bonds (or any bonds which refund the Bonds), or (iii) September 30, 2054. 2) ULAA may assess a Ticket Surcharge of up $8.00 per ticket sold on Men's Basketball Games, with the Authority retaining the first $2.00, and ULAA retaining up to $6.00. 3) In addition to the obligations of ULAA to pay the Annual Net Payment to the Authority, ULAA shall remit an additional $2,420,000 ("Additional Amount) annually during each year of the Term to the Authority. This sponsorship revenue is treated as an operating lease. There is no purchase option at the termination of the lease agreement.

Under this agreement, the Authority is leasing the arena to ULAA for all ULAA sponsored events. The agreement provides for rental rates regarding ULAA's use of the arena based on the type of event that is held as follows:

Type of Event	Rental Amount
Men's Basketball Game	Minimum of $10,000 per game, or 10% of gross admissions receipts from the sale of tickets (net of taxes and ticket surcharges)
Women's Basketball Game	Minimum of $5,000 per game, or 5% of gross admissions receipts from the sale of tickets (net of taxes and ticket surcharges)
Other University-Sponsored Events	Minimum of $5,000 per event, or 5% of gross admissions receipts from the sale of tickets (net of taxes and ticket surcharges)
Private Suite Rentals and Premium Seating	12% of the net revenue for the year

Total suite and premium seating revenues of $1,321,460 and $1,092,120 were recorded for the years ended December 31, 2021 and 2020, respectively. These amounts represent the pro-rata portion of total revenues for the number of men's basketball games from the 2021-2022, 2020-2021, and 2019-2020 seasons that occurred during the years ended December 31, 2021 and 2020.

In addition, this agreement also provides for the allocation of certain revenues between the Authority and ULAA as follows:

Type of Revenue	Allocation of Revenues
Program Sales and Program Advertisements	All proceeds will be retained by ULAA.
Concessions and Catering	Payments received from third-party concession and catering sales will be allocated 50% to the Authority and 50% to ULAA for all University sponsored events.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

Type of Revenue	Allocation of Revenues
Gift Shop	Payments received from gift shop sales will be allocated 50% to the Authority and 50% to ULAA for all events.
Signage	Effective 2013, ULAA and the Authority agreed to fixed annual payments for permanent signage sales based on a gross revenue sharing calculation as defined in the agreement for 2016, which includes signage (noted above).
Video Boards	Effective 2013, ULAA and the Authority agreed to fixed annual payments for permanent signage sales based on a gross revenue sharing calculation as defined in the agreement for 2016, which includes signage (noted above).

For the years ended December 31, 2021 and 2020, the Authority recorded expenses totaling $1,307,489 and $1,215,020, respectively, related to concessions and catering revenues owed to ULAA, signage and video revenues owed to ULAA, and the value of suites utilized under the sponsorship agreements. For the year ended December 31, 2021, $895,772 was recorded for signage and video revenues owed to ULAA and $411,717 was recorded for concessions and catering revenues and the value of suites utilized. For the year ended December 31, 2020, $807,435 was recorded for signage and video revenues owed to ULAA and $407,585 was recorded for concessions and catering revenues and the value of suites utilized. Amounts payable to ULAA at December 31, 2021 and 2020 were $574,499 and $267,679, respectively, and are included in accounts payable in the statements of financial position.

Under the ULAA agreement, all of the previously listed transactions are to be remitted on a net basis, settled April 1 of each year. At December 31, 2021, the Authority had a net receivable from ULAA of $325,469. At December 31, 2020, the Authority had a net payable to ULAA of $19,735.

9. TPI Agreement: The Authority has an agreement with Telecommunication Properties, Inc. (“TPI”) to provide consulting and management services of the Distributed Antenna System (“DAS”) project within the arena. Under the terms of the agreement, TPI will solicit license proposals and negotiate licenses with fiber and wireless carriers to utilize the Authority’s DAS, provide project support for the installation of the DAS, maintain the accounting related to the project and assist with the monitoring and collection of the license fees. For these services, TPI will receive a 20% commission of the gross license revenues as defined in the agreement.

   As of December 31, 2021, three wireless carriers are participating in the DAS program, and based upon the license terms, these agreements are accounted for as operating leases in accordance with ASC No. 840. Under the term of the agreements, the wireless carriers paid fees of $1,634,016, net of the 20% commission. These fees are recognized as revenue on a straight-line basis over the 10-year period of the agreements. At December 31, 2020, the unrecognized portion of fees totaling $52,691 was classified as deferred revenues in the statements of financial position. During the year ended December 31, 2021, the remaining portion of these fees was recognized as revenue.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

10. Funding Agreements: The Authority received a grant commitment from the Commonwealth of Kentucky (the "Commonwealth") that was amended in 2017. With the passage of House Bill 330 during the 2017 legislative session, the Commonwealth of Kentucky's original pledge of tax increment financing for which payments began in 2010 has changed. The new law extends the tax increment financing through the earliest of (1) the date no bonds are outstanding, (2) December 31, 2054, or (3) upon election of the state to terminate the TIF contract, which cannot occur without the consent of the trustee. The new law eliminates the $265,000,000 limitation on the aggregate increment paid by the Commonwealth on a cumulative basis and also includes several reporting and compliance provisions.

    The Authority entered into an Amended and Restated Memorandum of Agreement with Louisville/Jefferson County Metro Government ("Metro"). Metro subsequently passed Ordinance No. 143, Series 2007, which provides guaranteed payments from Metro to the Authority not to exceed $309,000,000 to pay a portion of the cost of acquisition, construction and installation of the arena project. The payments, scheduled to commence November 2010 and continue until November 2039, include minimum annual guaranteed payments ranging from $6,533,333 to $7,200,000 plus potential additional annual payments ranging from $3,266,667 to $3,600,000 should the required debt service exceed revenue from all sources. The Metro agreement required the Authority to reduce such guaranteed payment by any excess net cash flow (as defined in the agreement) generated by the Authority.

    During 2017, a Second Amended and Restated Memorandum of Agreement was entered into concurrent with the delivery date of the bonds, modifying the Metro agreement. Under the 2017 agreement, Metro has agreed to pay an annual payment of $10,800,000 on or before November 1 of each year starting in 2018 and continuing to the earliest of (1) September 30 of the year in which associated TIF payments cease, (2) the final payment of the bonds, or (3) September 30, 2054. The 2017 agreement with Metro eliminates the concept of minimum and maximum payments contained in the original Metro agreement.

NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS

Pursuant to the issue of Kentucky Economic Development Finance Authority Louisville Arena Project Revenue Bonds (see Note H) and the Bond Trust Indenture dated December 1, 2017, Regions Bank (the "Trustee"), holds investments, conducted transactions as directed by the Authority, and maintained appropriate books and records to account for all funds established under the trust indenture.

The 2017 Bond Trust Indenture provides for the issuance of the bonds and the establishment of the following accounts to be held by the Trustee:

Senior Reserve Fund: This fund is to be maintained while the bonds remain outstanding and is to be used to satisfy the Senior Interest Fund (the "Senior Funds") obligations, if such amounts in the Senior Funds are insufficient. At December 31, 2021 and 2020, the balance was $15,593,882.

Senior Interest Fund: This fund is used to hold deposits used solely to pay interest on the Senior Bonds and to pay any reimbursement obligations to the bond issuer (the "Senior Interest Funds"). At December 31, 2021 and 2020, the balance was $4,318 and $82,893, respectively.

Bond Sinking Fund: This fund is used to hold deposits used solely to pay principal on the Bonds. At December 31, 2021, the balance was $16. There was no balance at December 31, 2020.

NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS (Continued)

Renovation Replacement Fund: This fund is used to hold deposits for potential future repairs, renovations and replacements. At December 31, 2021 and 2020, the balance was $4,039,495 and $11,633,534, respectively.

Excess Net Cash Flow Fund: This fund is available for transfer to the Renovation and Replacement Fund, and Operation and Maintenance account on Senior Reserve Fund. At December 31, 2021 and 2020, the balance was $46,338,777 and $38,922,371, respectively.

Arena Revenue Fund: This fund is used to hold deposits from Arena revenues. At December 31, 2021 and 2020, the balance was $2,284,059 and $1,290, respectively.

TIF Revenue Fund: This fund is used to hold deposits of TIF revenues. At December 31, 2021 and 2020, the balance was $14 and $4,943,577, respectively.

Metro Revenue Fund: This fund is used to hold deposits of Metro revenues. At December 31, 2021 and 2020, the balance was $185 and $10,801,720, respectively.

NOTE E – OTHER RECEIVABLES

Other receivables at December 31, 2021 and 2020 consist of the following:

	2021	2020
ULAA lease receivable	$ 899,968	$ 247,944
YUM naming rights	-	150,000
Sponsorship payments receivable	-	125,000
Other	81,898	64,352
	$ 981,866	$ 587,296

NOTE F – ASSETS LIMITED AS TO USE

Investments are stated at estimated fair value and include the funds established by the Bond Trust Indenture. At December 31, 2021 and 2020, investments consist of the following:

	2021	2020
Money market funds	$ 68,260,746	$ 81,979,267

(Continued)

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020 consist of the following:

	2021	2020
Land and land improvements	$ 91,605,539	$ 91,605,539
Building and improvements	284,209,605	284,209,605
Equipment	31,327,073	24,589,660
Furniture and fixtures	6,224,321	6,224,321
Software	79,134	79,134
	413,445,672	406,708,259
Accumulated depreciation and amortization	(107,346,067)	(98,116,631)
	$ 306,099,605	$ 308,591,628

Depreciation expense was $9,229,436 and $9,124,852 for the years ended December 31, 2021 and 2020, respectively.

NOTE H – BONDS PAYABLE

On December 1, 2017, the Authority issued $202,125,000 Series 2017A Bonds and $175,640,000 Taxable Series 2017B Bonds, in order to a) refund the outstanding Series 2008A, 2008B and 2008C Series Bonds; b) fund a debt service reserve; c) provide certain working capital funds; d) fund a renovation and replacement fund; and d) pay expenses and costs incurred in connection with the issuance of the Bonds. $365,458,292 has been deposited into escrow and held in cash or used to purchase permitted investments and will provide for all future debt service on the Series 2008 Bonds. Should amounts in escrow be insufficient to service debt, the Authority would be responsible for any shortfall. As of December 31, 2021, no shortfall is projected, and no liability is accrued. The Authority has removed the 2008 Series Bonds from its accounts, in the amount of $345,113,246, net debt issuance costs and discounts including accreted interest. The legally defeased principal amount outstanding as of December 31, 2021 and 2020 was $12,189,173 and $15,023,728, respectively.

The Series 2017 bonds were issued at a premium. The amount of the original premium for the Series 2017 bonds was $16,677,163. This premium is being amortized using the effective interest method over the life of the respective bonds. There was no amortization (interest expense) recognized during 2017 related to this bond issue. Total amortization recognized for the years ending December 31, 2021 and 2020 was $649,959.

At December 31, 2021 and 2020, bonds payable was as follows, including unamortized discount and debt issuance costs:

	2021	2020
Series 2017A Bonds	$ 208,051,782	$ 208,325,425
Series 2017B Bonds	167,109,237	170,346,924
Total	$ 375,161,019	$ 378,672,349

(Continued)

NOTE H – BONDS PAYABLE (Continued)

The bonds are insured by a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. (the "Bond Insurer"), which guarantees the scheduled payments of principal and interest on the bonds when due. The Bond Insurer also issued a municipal bond debt service reserve insurance policy in the amount of $15,593,882, and a $10,000,000 liquidity reserve policy to make cash available to the Authority under certain circumstances through December 1, 2024.

The sources and uses of funds from the issue are as follows:

	Series 2017A Bonds	Series 2017B Bonds	Total
Sources			
Par amount	$ 202,125,000	$ 175,640,000	$ 377,765,000
Net original issue premium	16,677,163	-	16,677,163
Existing Debt Service Reserve Fund	8,703,297	7,209,658	15,912,955
Total sources	$ 227,505,460	$ 182,849,658	$ 410,355,118

	Series 2017A Bonds	Series 2017B Bonds	Total
Uses			
Deposit to Escrow Fund	$ 209,506,475	$ 155,951,817	$ 365,458,292
Deposit to Operation and Maintenance Account	-	921,910	921,910
Deposit to Renovation and Replacement Fund	-	12,000,000	12,000,000
Deposit to Debt Service Reserve Fund	8,343,583	7,250,299	15,593,882
Cost of issuance [1]	9,655,402	6,725,632	16,381,034
Total uses	$ 227,505,460	$ 182,849,658	$ 410,355,118

[1] Includes costs of issuance, Underwriter's discount, bond insurance premium, cost of debt service reserve surety and cost of liquidity reserve policy.

(Continued)

NOTE H – BONDS PAYABLE (Continued)

Information regarding the Series 2017 bonds totaling $375,161,019 and $378,672,349 outstanding at December 31, 2021 and 2020, respectively, are below:

A) Kentucky Economic Development Finance Authority
Louisville Arena Project Refunding Revenue Bonds, Series A

The Series 2017A bonds accrued interest based on varying rates and maturity dates as follows:

Matures December 1,	2021 Principal Balance	2020 Principal Balance	Interest Rate
2041	$ 47,340,000	$ 47,340,000	4.00%
2045	96,015,000	96,015,000	5.00%
2047	58,770,000	58,770,000	5.00%
	202,125,000	202,125,000	
Issuance premium	14,077,327	14,727,286	
Debt issuance costs	(8,150,545)	(8,526,861)	
Total	$ 208,051,782	$ 208,325,425	

The Series 2017A bonds require semi-annual interest payments due June and December 1, beginning June 1, 2018. Issuance premiums and debt issuance costs are amortized or accreted over the contractual terms of the bonds. The Series A Bonds maturing in 2041 and 2045 are subject to redemption at the option of the Authority on or after December 1, 2027. The Series 2017A Bonds maturing in 2047 are subject to redemption at the option of the Authority on or after December 1, 2022. Optional redemptions may be in whole or in part at a redemption price equal to the principal amount plus accrued interest without premium.

(Continued)

NOTE H – BONDS PAYABLE (Continued)

B) Kentucky Economic Development Finance Authority
Louisville Arena Project Refunding Revenue Bonds, Taxable Series B

The Series 2017B bonds accrued interest based on varying rates and maturity dates as follows:

Matures December 1,	2021 Principal Balance	2020 Principal Balance	Interest Rate
2021	$ -	$ 3,705,000	2.967%
2022	4,165,000	4,165,000	3.217%
2023	4,650,000	4,650,000	3.349%
2024	5,225,000	5,225,000	3.549%
2025	5,765,000	5,765,000	3.621%
2026	6,335,000	6,335,000	3.721%
2027	6,985,000	6,985,000	3.821%
2028	7,640,000	7,640,000	3.921%
2029	8,330,000	8,330,000	4.021%
2030	9,065,000	9,065,000	4.121%
2031	9,840,000	9,840,000	4.171%
2032	10,665,000	10,665,000	4.191%
2033	11,470,000	11,470,000	4.225%
2034	12,380,000	12,380,000	4.255%
2035	13,345,000	13,345,000	4.305%
2036	14,360,000	14,360,000	4.355%
2037	15,435,000	15,435,000	4.405%
2038	16,575,000	16,575,000	4.435%
2039	9,705,000	9,705,000	4.455%
	171,935,000	175,640,000	
Issuance premium	-	-	
Debt issuance costs	(4,825,763)	(5,293,076)	
Total	$ 167,109,237	$ 170,346,924	

The Series 2017B bonds require semi-annual interest payments due June and December 1, beginning June 1, 2018. Debt issuance costs are amortized over the contractual terms of the bonds. The Series B Bonds maturing in 2027 are subject to redemption at the option of the Authority on any date at a redemption price equal to the greater of a) 100% of the principal amount of the Series 2017B Bonds to be redeemed or b) the sum of the present values of the remaining scheduled principal and interest payments on the Series B Bonds to be redeemed, exclusive of interest accrued to the date fixed for redemption, discounted to the date of redemption on a semi-annual basis at a discount rate as defined.

The Series 2017B Bonds maturing on or after 2028 are subject to redemption at the option of the Authority on or after December 1, 2027, at a redemption price equal to the principle amount plus accrued interest without premium.

NOTE H – BONDS PAYABLE (Continued)

Aggregate maturities of bonds payable (at their repayment value) at December 31, 2021 are as follows:

Year ended December 1,	Principal	Accrued Interest
2022	$ 4,165,000	$ 16,743,481
2023	4,650,000	16,609,493
2024	5,225,000	16,453,765
2025	5,765,000	16,268,329
2026	6,335,000	16,059,579
Thereafter	347,920,000	230,377,450
Total aggregate maturities	$ 374,060,000	$ 312,512,097

The fair value of the bonds at December 31, 2021 and 2020 was approximately $419,501,079 and $415,228,539, respectively. The fair value of long-term bonds payable are primarily based on the prices at which similar bonds have recently traded in the market and also considering the overall market conditions on the date of valuation.

The bonds are collateralized by funds held by the Trustee, assignment of agreements related to the operations of the Authority, TIF and Metro guarantee, along with a mortgage on the arena property and equipment.

NOTE I – FAIR VALUE

The fair values of cash and cash equivalents, other receivables, and accounts payable approximate the carrying amounts due to the short maturities of these instruments. The fair values of investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges or by quoted market prices of similar securities with similar due dates.

The fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest to lowest priority are described below:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Authority's own assumptions.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

(Continued)

NOTE I – FAIR VALUE (Continued)

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would result in material changes in the fair value of investments and net assets of the Authority.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement at December 31, 2021 (Level 1)	Fair Value Measurement at December 31, 2020 (Level 1)
Assets limited to use:		
Money market funds	$ 68,260,746	$ 81,979,267

Money Market Funds: For these instruments, the carrying amount approximates the fair value (Level 1 Inputs).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the Authority believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE J – COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Authority has been named as a defendant in certain legal actions. The ultimate resolution of these matters is not ascertainable at this time. Management anticipates that the resolution of these claims will have no material adverse effect on the Authority's operating results or financial position. Consequently, no provisions have been made in the financial statements related to these claims.

NOTE K – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure (professional fees, sponsorships, signage and other expenses), that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

	2021	2020
Cash and cash equivalents	$ 3,750,288	$ 4,440,836
Other receivables	981,866	587,296
Total	$ 4,732,154	$ 5,028,132

(Continued)

NOTE K – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

Assets limited as to use are a series of funds that were established by the Bond Trust Indenture and are not available for general expenditure (See Note D and Note F). These funds are designed whereby balances will be sufficient to cover annual debt service in addition to funding renovation and replacement and operations and maintenance accounts to be used for those purposes. The funds could be made available if necessary, to make interest and principal payments on the bonds as they come due.

The bonds are insured by a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. (the "Bond Insurer"), which guarantees the scheduled payments of principal and interest on the bonds when due. The Bond Insurer also issued a municipal bond debt service reserve insurance policy in the amount of $15,593,882, and a $10,000,000 liquidity reserve policy to make cash available to the Authority under certain circumstances through December 1, 2024. The Policy was issued by the Bond insurer to be used solely to pay scheduled payments of principal and interest if necessary.

All future debt service on the Series 2008 Bonds will be funded by funds placed in escrow as described in Note H.

As part of the Authority's liquidity management plan and the structure of the contractual arrangements described in Note C, liquid financial assets are expected to be available as the general expenditures, liabilities and other obligations become due.

On or before November 15^{th} of each year, the Authority is required to file with the Trustee and Bond Insurer a written budget describing in reasonable detail the anticipated revenues and expenditures of the Arena.

NOTE L – FUNCTIONAL EXPENSES

Expenses categorized by their functional classification for the year ended December 31, 2021 are as follows:

	Management and General	Program Services	Total
Depreciation	$ 123,564	$ 9,105,872	$ 9,229,436
Professional fees	345,098	-	345,098
Sponsorships	-	411,717	411,717
Signage	-	895,772	895,772
Loss from operations contract	3,627,721	-	3,627,721
Other expenses	383,447	-	383,447
Interest expense	228,589	16,845,498	17,074,087
	$ 4,708,419	$ 27,258,859	$ 31,967,278

(Continued)

NOTE L – FUNCTIONAL EXPENSES (Continued)

Expenses categorized by their functional classification for the year ended December 31, 2020 are as follows:

	Management and General	Program Services	Total
Depreciation	$ 122,164	$ 9,002,688	$ 9,124,852
Professional fees	367,332	-	367,332
Sponsorships	-	407,585	407,585
Signage	-	807,435	807,435
Loss from operations contract	2,037,112	-	2,037,112
Other expenses	305,057	-	305,057
Interest expense	228,760	16,858,085	17,086,845
	$ 3,060,425	$ 27,075,793	$ 30,136,218

Depreciation and interest expense are allocated based on square footage of the Arena related to management and general and programmatic purposes. Professional fees, sponsorships, signage, and other expenses are directly charged to the functional category to which they relate.