

**LOUISVILLE ARENA AUTHORITY, INC.**  
Louisville, Kentucky

**FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

LOUISVILLE ARENA AUTHORITY, INC.  
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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Louisville Arena Authority, Inc., which comprise the statements of financial position as of December 31, 2012 and 2011, 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.

### ***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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Arena Authority, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

*Crowe Horwath LLP*  
Crowe Horwath LLP

Louisville, Kentucky  
May 30, 2013

LOUISVILLE ARENA AUTHORITY, INC.  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2012 and 2011

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	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,472,007	\$ 1,129,850
Interest receivable	60,758	62,664
Other receivables	6,174,507	5,904,679
Prepaid expenses	60,000	284,197
Restricted cash	965,450	4,132,564
Assets limited as to use – restricted to bond indenture	20,749,305	27,132,725
Property and equipment, net	380,397,950	391,705,407
Other assets	<u>7,977,591</u>	<u>8,783,958</u>
<b>Total Assets</b>	<b><u>\$ 419,857,568</u></b>	<b><u>\$ 439,136,044</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 5,282,778	\$ 8,105,235
Accrued expenses and other	8,850,476	7,703,877
Deferred revenues	3,316,121	4,855,854
Retainage payable	676,803	899,157
Note payable	6,375,000	6,874,995
Bonds payable	<u>352,543,882</u>	<u>350,996,297</u>
	377,045,060	379,435,415
Commitments and Contingencies		
Net Assets		
Unrestricted	<u>42,812,508</u>	<u>59,700,629</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 419,857,568</u></b>	<b><u>\$ 439,136,044</u></b>

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See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues and support		
Metro Louisville guarantee	\$ 9,800,000	\$ 6,533,333
Tax increment financing payments	3,541,716	2,168,608
Naming Rights revenue	1,300,000	1,300,000
Sponsorship revenue	2,953,315	2,560,148
Suite and premium seating revenue	1,406,417	1,747,446
Event revenue	5,462,390	9,650,369
Revenue from operations contract	895,726	-
Debt forgiveness	500,004	500,004
Grants and contributions	245,200	297,985
Other operating income	<u>68,471</u>	<u>61,982</u>
Total revenues and support	26,173,239	24,819,875
Operating expenses		
Depreciation	10,263,402	10,263,116
Direct cost of events	2,716,884	4,258,970
Arena operations	2,742,923	4,872,507
General and administrative	<u>2,970,385</u>	<u>4,241,450</u>
Total expenses	<u>18,693,594</u>	<u>23,636,043</u>
<b>Change in net assets before other revenue (expense)</b>	7,479,645	1,183,832
Other revenue (expense)		
Interest income	758,630	834,170
Interest expense	(21,760,725)	(21,682,864)
Unrealized gain (loss) on investments	<u>(3,365,671)</u>	<u>5,020,765</u>
Total other revenue (expense)	<u>(24,367,766)</u>	<u>(15,827,929)</u>
<b>Change in net assets</b>	(16,888,121)	(14,644,097)
Net assets at beginning of year	<u>59,700,629</u>	<u>74,344,726</u>
<b>Net assets at end of year</b>	<u>\$ 42,812,508</u>	<u>\$ 59,700,629</u>

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ (16,888,121)	\$ (14,644,097)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,372,631	11,438,712
Loss on disposal of assets	-	38,402
Accretion of interest on bonds payable	1,859,648	1,766,823
KSFB guarantee	-	184,479
Centerplate loan forgiveness	(500,004)	(500,004)
Unrealized loss (gain) on investments	3,365,671	(5,020,765)
Changes in:		
Interest receivable	1,906	17,949
Other receivables	(269,828)	649,219
Prepaid expenses	224,197	118,235
Accounts payable	(1,951,084)	2,591,016
Metro Louisville payable	-	(3,236,689)
Accrued expenses and other	1,146,599	(152,641)
Deferred revenues	(1,539,733)	(667,714)
Retainage payable	-	(696,485)
Net cash used in operating activities	(3,178,118)	(8,113,560)
 <b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(49,663)	(8,130,086)
Net change in restricted cash	3,167,114	5,347,102
Proceeds from investments	3,017,749	11,958,590
Net cash provided by investing activities	6,135,200	9,175,606
 <b>Cash Flows From Financing Activities</b>		
Payment on bonds payable	(614,925)	-
Increase in cash and cash equivalents	2,342,157	1,062,046
Cash and cash equivalents at beginning of year	1,129,850	67,804
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,472,007</b>	<b>\$ 1,129,850</b>
 <b>Supplemental Information</b>		
Cash paid for interest	\$ 19,444,012	\$ 21,343,367
Schedule of non-cash transactions:		
Property and equipment in accounts payable and retainage payable	-	3,798,821

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**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. The fair value of investment securities, useful lives of fixed assets, and fair value of financial instruments are significant 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.
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. Unrealized holding gains and losses are reported in the change of net assets.
5. Event and Ticket Sales Receivables: Receivables from events are now recorded by AEG under the new contract for operating the facility. Prior to July 1, 2012, they were based on contracted prices. Credit was granted based on the creditworthiness of the customer and a deposit was generally obtained. The Authority provided for estimated uncollectible accounts based on prior experience and a review of existing receivables. Typically, receivables were due within 30 days and were considered past due when the due date had expired. Receivables were reviewed for collectibility when they became past due. The Authority did not charge interest on past due receivables. At December 31, 2012 and 2011, no allowance was required as management considered all receivables to be collectible. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.
6. Restricted Cash: The Authority has established separate bank accounts to hold funds restricted for payment of bonds payable, the construction manager's retainage, and remaining funds received for the construction of the pedway.
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.

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2012 and 2011.

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 \$806,367 and \$853,563 for the years ended December 31, 2012 and 2011, respectively. Bond issuance costs, net of accumulated amortization are included in other assets in the accompanying statements of financial position. The bond issuance cost at December 31, 2012 and 2011 was \$11,962,778. The related accumulated amortization at December 31, 2012 and 2011 was \$3,995,187 and \$3,188,820, respectively. Amortization expense for future years is approximately \$753,000 in 2013, \$705,000 in 2014, \$655,000 in 2015 \$610,000 in 2016 and \$565,000 in 2017.
9. Deferred Revenues: Deferred revenues represent those funds received as deposits for future facility rentals and ticket sales for future events, equipment lease revenues, naming rights, and deferred signing bonus from AEG. The deferred revenues will be recognized as income in following years based on the duration of the agreement.
10. 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 statement of activities for the years ended December 31, 2012 or 2011. 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 2008 through 2012. The Authority does not expect its unrecognized tax benefits to significantly change in the next 12 months.

11. Reclassifications: Certain reclassifications were made to the December 31, 2011 financial statements to conform to the December 31, 2012 presentation. These classifications had no impact on the change in net assets or total net assets.
11. Subsequent Events: Subsequent events for the Authority have been considered through the date of the Independent Auditors' Report, which represents the date the financial statements were issued.

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**NOTE C – CONTRACTUAL ARRANGEMENTS**

1. Event Management Agreements:

AEG Management Louisville, LLC: The Authority has 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 extends through June 30, 2022. The Agreement may be terminated by either party upon 90 days prior notice. If terminated by the Authority before July 31, 2017, the Authority must reimburse AEG the full amount of the \$1,100,000 signing bonus received in July of 2012. This signing bonus is being amortized over the 5 year period (\$110,000 was amortized in 2012).

The fees for this contract include; 1) a Fixed Fee of \$240,000 for 2012 (6 month period) and \$480,000 for each year thereafter 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 \$120,000 per year subject to operating results. The Agreement guarantees the Authority a minimum amount of operating profit after the above management fees for each contract year ending June 30 of \$1,000,000 for 2013, \$1,200,000 for 2014, \$1,400,000 for 2015 and \$1,500,000 for each year thereafter as adjusted by the CPI increase.

A reconciliation of amounts under the contract for the six months ended December 31, 2012 is as follows:

Accrued profit from operations	\$ 1,085,726
Management fee to AEG	(300,000)
Amortization of deferred management fee discount	<u>110,000</u>
Revenue from operations contract	<u>\$ 895,726</u>

Kentucky State Fair Board Agreement: On June 30, 2012, the Authority terminated the Operations Management Agreement with the Kentucky State Fair Board (“KSFB”) to be the sole, independent managing agent for the arena with complete authority over and responsibility for its day-to-day operations, including its management. The fees for this arrangement included: 1) a Fixed Management Fee, 2) a Supplemental Management Fee up to \$150,000 per year subject to criteria and standards to be mutually agreed upon in advance annually, 3) a Freedom Hall Reimbursement to be paid annually to compensate for any net-negative impact, as defined, experienced by Freedom Hall, and 4) use of a private suite within the arena at no charge. During the years ended December 31, 2012 and 2011, management fees were \$75,000 and \$150,000, respectively.

During the years ended December 31, 2012 and 2011, the Authority incurred \$2,357,598 (6 months) and \$4,376,438 (12 months), respectively, of labor costs from KSFB under this management agreement.

The Authority has estimated the total net-negative impact to be \$5,250,000 during the term of this agreement. This future estimated liability has been discounted to its net present value using a discount rate of 4.04% and is reported as a liability of \$4,828,047 and \$4,666,843 and included as a component of accrued expenses and other in the accompanying statement of financial position at December 31, 2012 and 2011, respectively.

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**NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)**

During May 2013, a Dissolution and Termination Agreement was reached between the Authority and the KSFB concerning prior fees and expenses for management of the facility and the Freedom Hall net-negative reimbursement. The Dissolution and Termination Agreement provides that all liabilities due KSFB will be settled for approximately \$1.5 million and that payment terms will be mutually agreed by the Authority and the KSFB.

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. The remaining unutilized balance of \$194,173 and \$227,446 at December 31, 2012 and 2011, respectively, is included in accrued expenses and other in the accompanying statement of financial position.
3. Humana Agreement: As part of the Definitive Property Sale and Relocation Agreement with Humana, Inc., 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 to be charged the initial fee and suite build-out charges. As of December 31, 2012 and 2011, the value related to the suite is \$1,080,906 and \$1,171,546, 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”), Team Services, LLC, (“Team Services”) and Learfield Communication, Inc., (“Learfield”), to provide services in connection with the naming rights, marketing and sponsorship sales rights relating to the Arena. The agreement has an effective date of March 31, 2008 through 7 years after the opening of the Arena with the option to extend the term an additional 3 years.

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 agrees to pay the Authority a qualified sponsorship payment (“QSP”) annually for the first five years following the first public event at the arena. The qualified sponsorship payment is calculated as a percentage of gross revenues (as defined per the agreement), or an annual minimum of \$2,500,000 and \$2,000,000 for 2012 and 2011, respectively. 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. On any gross revenues in excess of \$4,000,000, the Authority receives a QSP of 65% of the gross revenues.

In addition, the agreement provides Team Services with an exclusive contract for obtaining a Naming Rights Sponsor for the Arena. Under the terms of the agreement, Team Services is to be paid a commission based upon the gross annual amounts the naming rights sponsor (Yum! Brands) is required to pay under the terms of the naming rights agreement.

The naming rights agreement with Yum! Brands, Inc. contains contractual annual payments through September 30, 2020.

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LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2012 and 2011

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**NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)**

Future naming rights revenues are as follows in accordance with the naming rights agreement:

Annual Contract Period Beginning <u>October 1,</u>	<u>Amount</u>
2013	\$ 1,300,000
2014	1,300,000
2015	1,326,000
2016	1,352,520
2017	1,379,570
2018	1,407,162
2019	<u>1,435,305</u>
	<u>\$ 9,500,557</u>

5. PARC Agreements: The Authority has entered into a Garage Operating Agreement with PARC, expiring September 30, 2044. Under the terms of the Agreement, PARC will be 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 agrees 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, 2012 and 2011, there was no signage in and on the garage.
  
6. Centerplate Agreement: The Authority has a Concessions and Catering Services Agreement with Service America Corporation, d/b/a Centerplate. The agreement provides for Centerplate to be the sole provider of concessions and catering services in the arena. The agreement expires on 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, however there is a minimum payment stipulated of \$2,500,000 annually to be paid in advance on January 1<sup>st</sup> of each year. 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. During the years ended December 31, 2012 and 2011, commission revenues of \$1,304,730 and \$2,873,764 related to concessions and catering were recognized related to events occurring during 2012 and 2011, respectively.

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 is being amortized monthly on a straight-line basis over a fifteen year period, expiring in October 2025. For each monthly period that the agreement remains effective from the first public event, Centerplate will forgive one-one hundred eightieth (1/180<sup>th</sup>) of the loan in favor of the Authority. During the years ended December 31, 2012 and 2011, Centerplate forgave approximately \$500,000 of this loan.

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LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

**NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)**

7. ULAA Agreement: The Authority has 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.

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 premium suite and seating revenues of \$1,406,417 and \$1,747,446 were recorded for the years ended December 31, 2012 and 2011, respectively. This amount represents the pro-rata portion of the total revenues over the number of men's basketball games of the 2012-2013 and 2011-2012 season that have occurred as of December 31, 2012 and 2011.

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
Gift Shop	Payments received from gift shop sales will be allocated 50% to the Authority and 50% to ULAA for all events
Signage	Payments received from permanent signage sales will be allocated 50% to the Authority and 50% to ULAA
Video Boards	Payments received from video board sales will be allocated 66.7% to the Authority and 33.3% to ULAA

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**NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)**

The Authority recorded expenses related to the concessions and catering revenues owed to ULAA; signage and video revenues owed to ULAA; and suites utilized under the sponsorship agreements of \$1,178,479 and \$2,424,585 for the years ended December 31, 2012 and 2011, respectively. The related liabilities included in accounts payable at December 31, 2012 and 2011 are \$597,500 and \$1,857,123, respectively.

Under the ULAA agreement, all of the previously listed transactions are to be remitted on a net basis, settled April 1 of each year. Therefore, at December 31, 2012 and 2011, a net receivable exists from ULAA of \$208,887 and \$1,138,526, respectively. The 2012 amount decreased due to management contract with AEG. AEG earns the concessions and catering revenues, which were a substantial portion of the 2011 expense due to ULAA.

8. 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, 2012, 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, which will be amortized over 10 years. At December 31, 2012 and 2011, \$1,306,310 and \$940,173 is included in deferred revenues in the accompanying statement of financial position.

9. Funding Agreements: The Authority has received a grant commitment from the Commonwealth of Kentucky (the "Commonwealth") in the form of a pledge of tax increment financing from the Commonwealth to be paid beginning in 2010 and continuing until the earliest of (1) the date all bond or debt obligations allocable to the increment are defeased or redeemed, (2) December 31, 2029, (3) the Commonwealth's election to terminate at the end of any calendar year upon sixty days prior written notice, or (4) the aggregate increment paid to the Authority by the Commonwealth on a cumulative basis reaches \$265,000,000.

The Authority has 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 requires the Authority to reduce such guaranteed payment by any excess net cash flow (as defined in the agreement) generated by the Authority.

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**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 August 1, 2008, U.S. Bank National Association ("U.S. Bank" or "the Trustee"), acts as trustee for the bond issuance. As such, U.S. Bank holds investments, conducts transactions as directed by the Authority, and maintains appropriate books and records to account for all funds established under the trust indenture.

The 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 Senior Bond Sinking Fund and Senior Interest Fund (the "Senior Funds") obligations, if such amounts in the Senior Funds are insufficient. At December 31, 2012 and 2011, the balance at cost was \$14,925,035.

Subordinate Reserve Fund - This fund is used for the deposit of \$990,000, to be maintained while the bonds remain outstanding and is to be used to satisfy Subordinate Bond Sinking Fund and Subordinate Interest Fund (the "Subordinate Funds") obligations, if such amounts in the Subordinate Funds are insufficient. At December 31, 2012 and 2011, the balance at cost was \$990,000.

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, 2012 and 2011, the balance was \$1,474,032 and \$376,026, respectively.

Subordinate Interest Fund - This fund is used to hold deposits used solely to pay interest on the Subordinate Bonds and to pay any reimbursement obligations to the bond issuer. At December 31, 2012 and 2011, the balance was \$0.

TIF Revenue Fund - This fund is used to hold the deposits received from the State of Kentucky pursuant to its financing agreement with the Authority. These funds are used to pay up to 35% of the interest and principal of the Senior Bonds. At December 31, 2012 and 2011, the balance was \$92 and \$81, respectively.

Metro Revenue Fund - This fund is used to hold the deposits from Metro Louisville pursuant to its financing agreement with the Authority. These funds are used to pay interest and principle of the Senior Bonds. At December 31, 2012 and 2011, the balance was \$0 and \$236, respectively.

Arena Revenue Fund - This fund is used to hold the deposits from Category A arena revenues. These funds are used first to make any payment to ULAA pursuant to its lease agreement and, secondly, to pay interest and principal of the Senior Bonds. At December 31, 2012 and 2011, the balance was \$0 and \$1,112,264, respectively.

Renovation Replacement Fund - This fund is used to hold deposits for potential future repairs, renovation and replacements. At December 31, 2012 and 2011, the balance was \$4,004 and \$0, respectively.

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE E – OTHER RECEIVABLES**

Other receivables at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Metro Louisville	\$ 3,266,667	\$ -
University of Louisville lease receivable	806,387	2,995,648
Sponsorship payments receivable	1,250,000	1,560,145
Event receivables	-	1,262,350
AEG contract	785,726	-
Other	<u>65,727</u>	<u>86,536</u>
	<u>\$ 6,174,507</u>	<u>\$ 5,904,679</u>

**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, 2012 and 2011, the investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash	\$ 4,096	\$ 317
Commercial paper	1,474,032	4,495,592
Guaranteed investment contracts	<u>19,271,177</u>	<u>22,636,816</u>
	<u>\$ 20,749,305</u>	<u>\$ 27,132,725</u>

During 2012, the fair values were adjusted down based on a yield of 3.5% to reflect current lower market rates and the possibility of conversion of the investment before December 1, 2042. Pursuant to the terms of the guaranteed investments contracts, the Authority receives investment income equal to 4.673% per annum. The contracts include security agreements that provide for issuer to transfer additional securities to the trustee, as collateral (collateral securities), if the market value of the investment securities drops below cost. In such event, the market value of the collateral securities transferred plus the market value of the investments must equal at least 103% of the investment contract's balance. The contract related to the Subordinate Reserve Fund expires December 1, 2025, and the contract related to the Senior Reserve Fund expires December 1, 2042. At December 31, 2012 and 2011, \$15,915,035, respectively, which represents the balances at cost of the Subordinate Reserve Fund and the Senior Reserve Fund, is invested in these contracts. At December 31, 2012 and 2011, the fair value of the funds invested is \$19,271,177 and \$22,636,816, respectively.

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(Continued)



LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE G – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 91,605,539	\$ 91,605,539
Building and improvements	283,969,073	285,026,924
Equipment	21,444,510	21,444,510
Furniture and fixtures	6,284,958	6,284,958
Software	<u>79,134</u>	<u>79,134</u>
	403,383,214	404,441,065
Accumulated depreciation and amortization	<u>(22,985,264)</u>	<u>(12,735,658)</u>
	<u>\$ 380,397,950</u>	<u>\$ 391,705,407</u>

**NOTE H – BONDS PAYABLE**

The Louisville Arena Authority, Inc., by virtue of the Bond Trust Indenture dated August 1, 2008 between Kentucky Economic Development Finance Authority (conduit bond issuer) and U.S. Bank National Association (Bond Trustee), issued the Series 2008 bonds. These bonds are collateralized by the funds held by the Trustee along with a mortgage on the arena property and equipment. The balances outstanding on these bonds at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Kentucky Economic Development Finance Authority Louisville Arena Project Revenue Bonds, Series 2008A		
1. Subseries 2008A-1, Current Interest Bonds		
A) Tax exempt fixed rate bonds at 5.75% with interest payable semi-annually (June 1 and December 1), maturing on December 1, 2028: net of unamortized discount of \$862,428 and \$954,809 at December 31, 2012 and 2011, respectively. These bonds are subject to redemption prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	\$ 83,947,572	\$ 83,855,191

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2012 and 2011

**NOTE H – BONDS PAYABLE** (Continued)

	2012	2011
B) Tax exempt fixed rate bonds at 6.00% with interest payable semi-annually (June 1 and December 1), maturity on December 1, 2033; net of unamortized discount of \$392,236 and \$428,943 at December 31, 2012 and 2011, respectively. These bonds are subject to redemption prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	72,312,764	72,276,057
C) Tax exempt fixed rate bonds at 6.00% with interest payable semi-annually (June 1 and December 1), maturing on December 1, 2038; net of unamortized discount of \$958,640 and \$1,037,774 at December 31, 2012 and 2011, respectively. These bonds are subject to redemption prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	79,886,360	79,807,226
d) Tax exempt fixed rate bonds at 6.00% with interest payable semi-annually (June 1 and December 1), maturing on December 1, 2042; net of unamortized discount of \$1,224,905 and \$1,319,545 at December 31, 2012 and 2011, respectively. These bonds are subject to redemption prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	52,695,095	52,600,455
2. Subseries 2008A-2, Capital Appreciation Bonds  Bonds accreting interest (at varying rates ranging from 4.410% to 6.180%) through the maturity date, with interest and principal due at maturity. Includes accreted interest of \$7,378,498 and \$5,518,850 at December 31, 2012 and 2011, respectively. Maturity dates vary from December 1, 2012 through December 1, 2024. These bonds are not subject to redemption prior to maturity. (See Table A).	33,702,091	32,457,368

(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2012 and 2011

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**NOTE H – BONDS PAYABLE** (Continued)

	2012	2011
Kentucky Economic Development Finance Authority Louisville Arena Project Revenue Bonds, Series 2008B		
Taxable fixed rate bonds at 7.00%, with interest payable semi- annually (June 1 and December 1), maturing on December 1, 2021. These bonds are subject to redemption prior to maturity commencing June 1, 2013 at the redemption prices stated in the bond agreement plus interest accrued through the redemption date (see Table B).	\$20,100,000	\$20,100,000
Kentucky Economic Development Finance Authority Louisville Arena Project Revenue Bonds, Series 2008C		
Taxable fixed rate bonds at 8.250%, with interest payable semi-annually (June 1 and December 1), maturing on December 1, 2025. These bonds are subject to redemption prior to maturity commencing June 1, 2013 at the redemption prices stated in the bond agreement plus interest accrued through the redemption date (see Table B).	<u>9,900,000</u>	<u>9,900,000</u>
	<u>\$ 352,543,882</u>	<u>\$350,996,297</u>

As noted above, the Series 2008A-1 bonds were issued at a discount. The amount of the original discount for the Series 2008A-1 bonds was \$4,891,332. This discount is being amortized using the effective interest method over the life of the respective bonds. Amortization (interest expense) was \$302,862 and \$322,033 for the years ended December 31, 2012 and 2011, respectively.

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE H – BONDS PAYABLE** (Continued)

The Series 2008A-2 bonds accrete interest based on varying rates and maturity dates as follows:

**Table A**

<u>December 1,</u>	<u>Original Principal Amount</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>
2012	\$ 614,925	\$ 740,000	4.410%
2013	1,031,481	1,310,000	4.610%
2014	1,650,881	2,220,000	4.800%
2015	1,950,754	2,780,000	4.950%
2016	1,564,698	2,370,000	5.100%
2017	1,467,859	2,370,000	5.250%
2018	1,305,659	2,265,000	5.450%
2019	1,210,529	2,265,000	5.650%
2020	1,118,004	2,265,000	5.850%
2021	2,834,555	6,210,000	6.010%
2022	4,872,343	11,420,000	6.070%
2023	5,110,574	12,830,000	6.130%
2024	2,206,256	5,930,000	6.180%
	<u>\$ 26,938,518</u>	<u>\$ 54,975,000</u>	

**Table B**

<u>Redemption Period</u>	<u>Redemption Price</u>
June 1, 2013 to, but not including, June 1, 2014	102.00%
June 1, 2014 to, but not including June 1, 2015	101.50%
June 1, 2015 to, but not including June 1, 2016	101.00%
June 1, 2016 to, but not including June 1, 2017	100.50%
June 1, 2017 and thereafter	100.00%

The debt agreements require the Authority to comply with certain covenants, including financial covenants. The Authority is required to file a compliance certificate with the Bond Trustee on or before June 30, 2013, based on the audited financial statements. The compliance certificate will indicate that the Authority is not in compliance with the financial covenant requirements; however, those defaults are expected to be cured by the Authority by complying with other bond requirements as noted in the bond agreement.

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE H – BONDS PAYABLE** (Continued)

Aggregate maturities on bonds payable (at their repayment value) at December 31, 2012 are as follows:

Year ending December 31,	Principal	Accreted Interest
2013	\$ 1,031,481	\$ 278,519
2014	1,650,881	569,119
2015	1,950,754	829,246
2016	2,744,698	805,302
2017	3,052,860	902,141
Thereafter	338,172,919	24,527,080
Total aggregate maturities	<u>\$ 348,603,593</u>	<u>\$ 27,911,407</u>

The fair value of the bonds at December 31, 2012 was approximately \$389,000,000.

**NOTE I – FAIR VALUE**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents and Restricted Cash: The carrying amounts for cash and cash equivalents and restricted cash approximate their fair value.

Other Receivables: The carrying amounts for other receivables approximate their fair value.

Assets Limited as to Use (Investments): 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.

Accounts Payable: The carrying amounts for accounts payable approximate their fair value.

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.

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2012 and 2011

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**NOTE I – FAIR VALUE** (Continued)

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.

The guaranteed investment contracts are valued at one dollar for each unit owned by the Authority. 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, 2012 Significant Other Observable Inputs (Level 2)	Fair Value Measurement at December 31, 2011 Significant Other Observable Inputs (Level 2)
Assets		
Assets limited to use and certificates of deposit (investments):		
Cash	\$ 4,096	\$ 317
Commercial paper	1,474,032	4,495,592
Guaranteed investment contracts	<u>19,271,177</u>	<u>22,636,816</u>
	<u>\$ 20,749,305</u>	<u>\$ 27,132,725</u>

Cash and Money Market Accounts and Commercial Paper: Fair values are estimated to approximate deposit account balances, payable on demand, as no discount for credit quality or liquidity were determined to be applicable (Level 2 inputs).

Guaranteed Investment Contracts: The fair values of the guaranteed investment contracts are estimated by discounting the projected cash flows based upon current yields for contracts with comparable durations and credit quality of the issuers (Level 2 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.