louisville arena authority

Louisville Arena Authority, Inc.
Management's Discussion and Analysis
Audited Financial Statements –Years ended December 31, 2012 and 2011

Major Items:

Two major items in 2012 had a significant effect on the financial statements. Effective July 1, 2012, the Authority terminated the operations management contract with the Kentucky State Fair Board and entered into a contract with AEG to be the independent manager of the arena. The results of operations under the new contract (for the last six months of 2012) are reported at net instead of at gross. Accordingly, event revenue and related expenses are not comparable between the two years (2011 includes a full 12 months while 2012 includes only six months).

In addition, the statements are significantly affected by the change in fair value of the two guaranteed investment contracts (GICs) held by the Authority, which mature in December 2025 and December 2042. At December 31, 2012, management estimated fair value using a discount rate approximately 100 basis points greater than 2011. Although interest rates continued to decline during 2012, management determined certain other factors, including liquidity, marketability, and other economic conditions, resulted in a change in the discount rate used to fair value the GICs. The change in fair value is presented in the statement of activities and reflects a loss of $3.4 million in 2012 compared to a $5.0 million gain in 2011.

Changes in Net Assets:

Net assets declined $16.9 million from December 31, 2011 to 2012. The decline was composed of non-cash items of depreciation of $10.3 million, reduction in investments (GIC) of $3.4 million, amortization of bond issue costs of $1.0 million and an increase in bonds payable of $1.9 million accreted interest (payable in the future). In summary, $16.6 million of the decrease is explained by non-cash expenses during 2012.

Restricted cash, accounts payable and deferred revenues all declined significantly because of the transfer of these responsibilities to AEG under the new operations contract.

In addition, the May 2013 settlement with the Kentucky State Fair Board will reduce accounts payable and accrued expenses by almost $5.5 million. This event occurred in 2013, hence it will be an item of revenue and support in 2013.

Results of Operations for 2012 Compared to 2011:

An analysis of the 2012 operations compared to 2011 reveals that the Metro Louisville guarantee commitment increased by $3.3 million, the TIF increased by $1.4 million and the AEG operations contract (for the six months ended June 30, 2012) resulted in a net profit of $.895 million. The improvement in operations from events was a big reason for the overall 2012 improvement. This is summarized as follows:

	2012	2011
	(In millions)	
Event revenue	$ 5.5	$ 9.7
Revenue from operations contract	.9	
Direct cost of events	-2.7	-4.3
Arena operations	-2.7	-4.9
General & administrative	-3.0	-4.2
Net loss	$-2.0	$-3.7

The reduction in suite & premium seating revenue is explained by the proportion of U of L games in each year. The contract yielded about the same cash for each U of L season, however 63.6 % of the 2011-12 games were in 2011, while only 50% of the 2012-13 games were in 2012.