REPORT OF THE AUDIT OF THE LOUISVILLE ARENA AUTHORITY, INC.

For The Years Ended
December 31, 2016 and 2015

MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisville Arena Authority Inc. (LAA) which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of LAA, as of and for the year ended December 31, 2015, were audited by a predecessor auditor, whose report dated May 25, 2016, was provided to us.

Management's Responsibility for the Financial Statements

LAA's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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Board of Directors
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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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LAA'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 LAA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAA, as of December 31, 2016 and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note B (11), the 2016 financial statements of LAA include a change in accounting principle resulting from the implementation of ASU 2015-03, *Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. This change resulted in classification changes within the statement of net position, but has no effect on net assets or change in net assets. This accounting principle has been applied retrospectively, and therefore, the 2015 financial statements have been amended accordingly. Our opinion is not modified with respect to this matter.

Other Matter – Prior-Year Comparative Statements

The financial statements of LAA, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, were audited by a predecessor auditor whose report dated May 25, 2016, expressed an unmodified opinion prior to amendment. As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note B (11) that were applied to amend the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of LAA other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2017 on our consideration of LAA's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on LAA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAA's internal control over financial reporting and compliance.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

May 17, 2017

FINANCIAL STATEMENTS

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENT OF FINANCIAL POSITION

December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	$ 2,564,515	$ 897,237
Interest receivable	60,943	60,943
Other receivables	2,332,480	2,721,243
Prepaid expenses	105,533	103,464
Restricted cash	630,406	630,305
Assets limited as to use- restricted to bond indenture	30,764,820	28,097,524
Property and equipment, net	341,290,625	350,208,568
Total assets	$ 377,749,322	$ 382,719,284

Liabilities and Net Assets	2016	2015
Liabilities		
Accounts payable	$ 3,545,314	$ 4,340,367
Accrued expenses and other	3,795,017	3,861,946
Deferred revenues	2,321,903	2,185,415
Retainage payable	341,359	341,359
Note payable	4,375,000	4,875,000
Bonds payable	346,271,443	346,994,028
	360,650,036	362,598,115
Net assets		
Unrestricted	17,099,286	20,121,169
Total liabilities and net assets	$ 377,749,322	$ 382,719,284

The accompanying notes are an integral part of the financial statements.

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues and support		
Metro Louisville guarantee	$ 9,800,000	$ 9,800,000
Tax increment financing payments	10,297,345	8,109,272
Naming Rights revenue	1,332,630	1,306,500
Sponsorship revenue	3,278,754	3,522,830
Suite and premium seating revenue	1,747,765	1,813,729
Revenue from operations contract	2,383,576	1,492,848
Debt forgiveness	500,000	500,000
Other operating income	233,546	177,636
Total revenues and support	29,573,616	26,722,815
Operating expenses		
Depreciation	8,988,203	9,902,502
General and administrative	2,242,040	3,053,832
Total expenses	11,230,243	12,956,334
Change in net assets before other revenue (expense)	18,343,373	13,766,481
Other revenue (expense)		
Interest income	758,672	747,222
Interest expense	(22,414,794)	(22,495,847)
Unrealized gain (loss) on investments	290,866	(1,286,346)
Total other revenue (expenses)	(21,365,256)	(23,034,971)
Change in net assets	(3,021,883)	(9,268,490)
Net assets at beginning of year	20,121,169	29,389,659
Net assets at end of year	$ 17,099,286	$ 20,121,169

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENT OF CASH FLOWS

For The Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Changes in net assets	$ (3,021,883)	$ (9,268,490)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,838,262	10,811,021
Accretion of interest on bonds payable	1,172,053	1,168,680
Centerplate loan forgiveness	(500,000)	(500,000)
Unrealized (gain) loss on investments	(290,866)	1,286,346
Changes in:		
Other receivables	388,763	340,977
Prepaid expenses	(2,069)	(24,434)
Accounts payable	(795,053)	361,499
Accrued expenses and other	(66,929)	(64,283)
Deferred revenues	136,488	(363,902)
Net cash provided by operating activities	6,858,766	3,747,414
Cash flows from investing activities		
Purchase of property and equipment	(70,260)	(118,699)
Net change in restricted cash	(101)	(99)
Net change in limited use cash	(2,376,430)	(1,660,052)
Net cash used in investing activities	(2,446,791)	(1,778,850)
Cash flows from financing activities		
Payments on bonds payable	(2,744,697)	(1,950,754)
Increase (decrease) in cash and cash equivalents	1,667,278	17,810
Cash and cash equivalents at beginning of year	897,237	879,427
Cash and cash equivalents at end of year	$ 2,564,515	$ 897,237
Supplemental information		
Cash paid for interest	$ 20,353,827	$ 20,377,771

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NOTES TO THE FINANCIAL STATEMENTS

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

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. Other Receivables: Receivables from the Authority's various funding sources are recorded at their net realizable value based on contractual agreements. The Authority did not charge interest on past due receivables. At December 31, 2016 and 2015, no allowance was required as management considered all receivables to be collectible.

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.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

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, 2016 and 2015.

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 $613,124 and $656,590 for the years ended December 31, 2016 and 2015, respectively. The bond issuance cost at December 31, 2016 and 2015 was $11,962,778. The related accumulated amortization at December 31, 2016 and 2015 was $6,721,024 and $6,107,900, respectively. Amortization expense for future years is approximately $570,000 in 2017, $530,000 in 2018, $500,000 in 2019, $470,000 in 2020, and $440,000 in 2021.
9. Deferred Revenues: Deferred revenues represent those funds received as deposits for 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, 2016 or 2015. 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 does not expect its unrecognized tax benefits to significantly change in the next 12 months.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Accounting Changes: In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, *Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. This amendment requires debt issuance cost to be presented as a reduction to the principal amount of debt owed. The ASU is effective retrospectively for nonpublic entities for fiscal years beginning after December 15, 2015, and was adopted by the Authority for the year ended December 31, 2016. The 2015 statement of financial position was amended to reclassify unamortized bond issue costs of $5,854,878 originally included in other assets, to a reduction in bonds payable. This amendment had no effect on previously reported net assets or change in net assets.

12. Newly Issued Standards Not Yet Effective: FASB has issued accounting standard No. 2014-09, *Revenue from Contracts with Customers*, concerning the accounting for revenue recognition. The standard is effective for years beginning after December 15, 2018.

    FASB has also issued accounting standard No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, concerning changes on classifying net assets and preparation of financial statements. The standard is effective for years beginning after December 15, 2017.

    FASB has issued accounting standard No. 2016-02, *Leases*, concerning the accounting for leases. The standard is effective for years beginning after December 15, 2018.

    The Authority is evaluating the impact that adoption of these standards will have on future financial position and results of operations.

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 fees for this contract include: 1) a Fixed Fee of $480,000 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 $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 $1,500,000 for 2015 and $1,500,000 for each year thereafter as adjusted by the CPI increase.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

In 2016, the Agreement was amended as follows: 1) the term was extended to June 30, 2027, 2) a Fixed Fee of $700,000 for the year adjusted annually up to 1.5% of the CPI, 3) an Incentive Fee up to $35,000 per year subject to operating results, 4) a Signing Bonus of $1,000,000 due in May 2016 and $500,000 due July 2022, and 5) certain management and administrative provisions.

The Agreement may be terminated by either party in accordance with the provisions of the agreement. If terminated by the Authority before July 31, 2017, the Authority must reimburse AEG the full amount of the $1,000,000 2016 and $1,100,000 2012 signing bonuses. These signing bonuses are being amortized from inception through the July 31, 2017 termination penalty clause date in the Agreement. Amortization was $720,000 for 2016 and $220,000 for 2015.

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

	2016	2015
Accrued profit from operations	$2,340,144	$1,887,348
Management fee to AEG	(676,568)	(614,500)
Amortization of deferred management fee discount	720,000	220,000
Revenue from operations contract	$2,383,576	$1,492,848

Kentucky State Fair Board Agreement: On July 1, 2012, the Authority terminated its April 2008 Operations Management Agreement (the "Management Agreement") with the Kentucky State Fair Board ("KSFB"), pursuant to an Agreement of Dissolution and Termination (the "Dissolution Agreement"). The Management Agreement, which had an initial term of 10 years (subject to certain termination provisions), vested control of the operations and management of the Yum! Center (the "Arena") to KSFB through April 2018. Compensation to KSFB under the Management Agreement included a fixed management fee of $150,000 annually, reimbursement of labor costs incurred by KSFB at the Arena, and a negative impact provision (adopted from the Commonwealth of Kentucky Biennial Budget Bill of 2006) to reimburse KSFB for the reduction in net income of KSFB's Freedom Hall caused by the operation of the Arena through the term of the Management Agreement. During the six months ended prior to July 1, 2012, the date of termination of the Management Agreement, the Authority paid KSFB $75,000 for its management fee and incurred $2,357,000 of labor costs from KSFB under the agreement.

The negative impact provision of the Management Agreement required the Authority to fund a reserve with $750,000 annually, commencing in 2011, to be used for payment of the required Freedom Hall net income reimbursements, if any, commencing in 2014. Because of restrictions in the Arena's bond documents, the reserve was not funded in 2011 or during the six months ended prior to July 1, 2012, when the Management Agreement was terminated. Instead, the Authority

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

accrued $4,828,047 as an estimate of future Freedom Hall reimbursements equal to $750,000 per year for the seven years that remained on the Management Agreement's initial term at that time ($5,250,000 gross liability) discounted to its net present value at a rate of 4.04%. A similar calculation for the 18 months beginning January 2011 and ending on the Management Agreement's termination date of July 1, 2012, yields a gross liability of $1,125,000. Neither calculation reflects potential offsets of excessive costs incurred by the Authority under the management of KSFB.

In May, 2013, KSFB proposed to settle all debts owed by the Authority to KSFB for fees, expenses, and the Freedom Hall negative impact reimbursement, for a total of $1,471,910. The $1,471,910 comprised the accounts payable to KSFB recorded on the Authority's books at that date. The Authority accepted the proposal at its meeting on May 13, 2013. However, KSFB subsequently informed the Authority that it did not intend the debt settlement to include the Freedom Hall negative impact reimbursement, and in early 2014 asserted a claim with the Authority of $7,200,000 for such reimbursement. The claim purported to reflect reductions in Freedom Hall net income arising from Arena operations for the calendar years 2012, 2013, and 2014. The Authority made an initial payment to KSFB of $100,000 against the $1,471,910 settlement amount in October 2013. In 2014, the Authority sold to KSFB furniture and fixtures for an agreed upon reduction of the liability in the amount of $150,000. The Authority made payments of $100,000 in October 2016 and 2015.

The Authority rejected KSFB's claim for any payment in excess of the $1,471,910 agreed upon settlement, based on its prior acceptance of KSFB's offer to settle for this amount and its prior payment, accepted by KSFB, of $100,000 against this settlement amount. Further, the KSFB claim for negative impact reimbursement encompasses a 36-month period from January 1, 2011 through December 31, 2013, which period is 18 months beyond the July 1, 2012 termination date of the Management Agreement. As discussed above, the Freedom Hall reimbursement provisions of the Management Agreement, adopted from the Commonwealth of Kentucky Biennial Budget Bill of 2006, expired with the termination of the Management Agreement.

Furthermore, on April 17, 2015, based on a joint request from the Authority and KSFB, the Attorney General of the Commonwealth of Kentucky issued an informal opinion about whether the Louisville Arena Authority is obligated to pay to KSFB the negative impact reimbursement. The opinion concluded that the negative impact reimbursement was not due to KSFB. As a result of this opinion and other factors noted above, the Authority determined that it was not probable that the liability exists and the Authority has reversed the previously accrued estimate of $4,828,047. The reversal of the liability was recorded as a benefit in the Statement of Activities and Changes in Net Assets for the year ended December 31, 2014. The settlement of the liability for debts owned by the Authority for expenses was recorded as a benefit in the Statement of Activities and Changes in Net Assets for the year ended December 2013.

The Authority intends to honor its agreement with KSFB to settle all debts for $1,471,910. The remaining liability of $1,021,910 and $1,121,910 due KSFB is included as a component of accrued expenses and other in the accompanying Statement of Financial Position at December 31, 2016 and 2015, respectively.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(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. The remaining unutilized balance of $86,660 and $102,444 at December 31, 2016 and 2015, 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 20 years. Further, Humana was not to be charged the initial fee and suite build-out charges. As of December 31, 2016 and 2015, the value related to the suite was $892,943 and $944,088, 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 seven years after the opening of the Arena with the option to extend the term an additional three 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. The QSP is calculated as a percentage of gross revenues (as defined per the agreement), or an annual minimum of $2,500,000 for both 2016 and 2015. 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 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.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

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

Annual Contract Period Beginning October 1,	Amount
2017	$ 1,379,570
2018	1,407,162
2019	1,435,305
	$ 4,222,037

5. PARC Agreements: The Authority has entered into a Garage Operating Agreement with Parking Authority of River City ("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, 2016 and 2015, 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 ("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. The new event management contract with AEG effective July 1, 2012 transfers the Centerplate revenue to AEG.

   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 15-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 ($1/180^{th}$) of the loan in favor of the Authority. During the years ended December 31, 2016 and 2015, Centerplate forgave $500,000 of this loan. The balance of the loan is $4,375,000 and $4,875,000 which is included in the note payable in the accompanying statement of financial position as of December 31, 2016 and 2015, respectively.

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.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

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 $1,747,765 and $1,813,729 were recorded for the years ended December 31, 2016 and 2015, respectively. This amount represents the pro-rata portion of the total revenues over the number of men's basketball games of the 2016-2017 and 2015-2016 seasons that have occurred as of December 31, 2016 and 2015.

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

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 annual payments for permanent signage sales based on a gross revenue sharing calculation as defined in the Agreement for 2016 and a fixed payment of $950,000 for 2015, which includes video boards (noted below)
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 and a fixed payment of $950,000 for 2015, which includes signage (noted above)

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 $1,576,123 and $1,631,952 for the years ended December 31, 2016 and 2015, respectively. The related liabilities included in accounts payable at December 31, 2016 and 2015 are $601,697 and $680,217, 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, 2016 and 2015, a net receivable exists from ULAA of $372,891 and $355,168, respectively.

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, 2016, 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, 2016 and 2015, $697,513 and $860,914 is included in deferred revenues in the accompanying statements of financial position.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

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 60 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.

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, 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 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 Senior Bond Sinking Fund and Senior Interest Fund (the "Senior Funds") obligations, if such amounts in the Senior Funds are insufficient. At December 31, 2016 and 2015, the balance at cost was $15,975,598 and $15,269,886, respectively.

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, 2016 and 2015, the balance at cost was $1,057,547 and $1,012,874, respectively.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS (Continued)

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, 2016 and 2015, the balance was $30 and $9,365,888, 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, 2016 and 2015, the balance was $295,604 and $408,376, respectively.

TIF Revenue Fund - This fund is used to hold the deposits received from the Commonwealth 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, 2016 and 2015, the balance was $1,180,275 and $273, 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 principal of the Senior Bonds. At December 31, 2016 and 2015, the balance was $6,838,810 and $189,329, 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, 2016 and 2015, the balance was $3,369,413 and $94,792, respectively.

Renovation Replacement Fund - This fund is used to hold deposits for potential future repairs, renovations and replacements. At December 31, 2016 and 2015, the balance was $642,700 and $642,114, respectively.

Senior Bond Sinking Fund – This fund is used solely to pay principal of the Senior Bonds and to pay any reimbursement obligations to the bond issuer. At December 31, 2016 and 2015, the balance was $0 and $18, respectively.

NOTE E – OTHER RECEIVABLES

Other receivables at December 31, 2016 and 2015 consist of the following:

	2016	2015
ULAA lease receivable	$ 974,588	$ 1,035,385
Sponsorship payments receivable	1,214,516	1,214,516
AEG contract		398,110
Other	143,376	73,232
	$ 2,332,480	$ 2,721,243

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

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, 2016 and 2015, the investments consist of the following:

	2016	2015
Cash and commercial paper	$ 13,444,943	$ 11,068,516
Guaranteed investment contracts	17,319,877	17,029,008
	$ 30,764,820	$ 28,097,524

Pursuant to the terms of the guaranteed investment 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 guaranteed investment contracts related to the Subordinate Reserve Fund expires December 1, 2025, and the Senior Reserve Fund expires December 1, 2042. The cost basis of the Senior Reserve Fund and Subordinate Reserve Fund at December 31, 2016 and 2015 was $15,915,035. At December 31, 2016 and 2015, the fair value of the funds invested was $17,319,877 and $17,029,008, respectively.

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 consist of the following:

	2016	2015
Land and land improvements	$ 91,605,539	$ 91,605,539
Building and improvements	284,034,305	284,008,107
Equipment	21,570,979	21,556,417
Furniture and fixtures	6,207,291	6,177,791
Software	79,134	79,134
	403,497,248	403,426,988
Accumulated depreciation and amortization	(62,206,623)	(53,218,420)
	$341,290,625	$350,208,568

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE H – BONDS PAYABLE

The bonds are collateralized by funds held by the Trustee along with a mortgage on the arena property and equipment. The balances outstanding on these bonds at December 31, 2016 and 2015 are as follows:

	2016	2015
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 $543,417 and $616,178 at December 31, 2016 and 2015, respectively. These bonds are subject to optional redemption by the Authority prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	$ 84,266,586	$ 84,193,822
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 $266,200 and $294,840 at December 31, 2016 and 2015, respectively. These bonds are subject to optional redemption by the Authority prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	72,438,800	72,410,160
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 $686,963 and $748,693 at December 31, 2016 and 2015, respectively. These bonds are subject to optional redemption by the Authority prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	80,158,037	80,096,307

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE H – BONDS PAYABLE (Continued)

	2016	2015
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 $900,058 and $973,860 at December 31, 2016 and 2015, respectively. These bonds are subject to optional redemption by the Authority prior to maturity commencing June 1, 2018 at the redemption price of 100% of the principal amount plus accrued interest through the redemption date.	$ 53,019,942	$ 52,946,140
2. Subseries 2008A-2, Capital Appreciation Bonds		
Bonds accreting interest (at varying rates ranging from 4.41% to 6.18%) through the maturity date, with interest and principal due at maturity. Includes accreted interest of $12,684,055 and $11,512,002 at December 31, 2016 and 2015, 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).	32,809,832	33,202,477
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 optional redemption by the Authority 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).	18,920,000	20,100,000

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE H – BONDS PAYABLE (Continued)

	2016	2015
Kentucky Economic Development Finance Authority Louisville Arena Project Revenue Bonds, Series 2008C		
Taxable fixed rate bonds at 8.25%, with interest payable semi-annually (June 1 and December 1), maturing on December 1, 2025. These bonds are subject to optional redemption by the Authority 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).	$ 9,900,000	$ 9,900,000
	351,513,197	352,848,906
Less unamortized debt issuance costs	(5,241,754)	(5,854,878)
Total Bonds Payable	$ 346,271,443	$ 346,994,028

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 $236,935 and $251,930 for the years ended December 31, 2016 and 2015, respectively.

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

Table A

December 1,	Original Principal Amount	Amount Maturing	Interest Rate
2017	$ 1,467,859	$ 2,370,000	5.25%
2018	1,305,659	2,265,000	5.45%
2019	1,210,529	2,265,000	5.65%
2020	1,118,004	2,265,000	5.85%
2021	2,834,555	6,210,000	6.01%
2022	4,872,343	11,420,000	6.07%
2023	5,110,574	12,830,000	6.13%
2024	2,206,256	5,930,000	6.18%
	$ 20,125,779	$ 45,555,000	

NOTE H – BONDS PAYABLE (Continued)

Table B

Redemption Period	Redemption Price
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, 2017, 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 have been cured by the Authority by complying with other bond requirements as noted in the bond agreement.

Aggregate maturities on bonds payable (at their repayment value) at December 31, 2016 are as follows:

Year ending December 1,	Principal	Accrued Interest
2017	$ 3,052,860	$ 902,141
2018	4,800,659	959,341
2019	5,855,529	1,054,471
2020	9,428,004	1,146,996
2021	7,219,555	3,375,446
Thereafter	310,869,174	17,990,826
Total aggregate maturities	$341,225,781	$ 25,429,221

The fair value of the bonds at December 31, 2016 and 2015 was approximately $368,000,000 and $386,000,000, respectively. The fair value of long-term bonds payable is 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.

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.

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE I – FAIR VALUE (Continued)

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.

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, 2016 Significant Other Observable Inputs (Level 2)	Fair Value Measurement at December 31, 2015 Significant Other Observable Inputs (Level 2)
Assets		
Assets limited to use and certificates of deposit (investments):		
Cash and commercial paper	$ 13,444,943	$ 11,068,516
Guaranteed investment contracts	17,319,877	17,029,008
	$ 30,764,820	$ 28,097,524

LOUISVILLE ARENA AUTHORITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Continued)

NOTE I – FAIR VALUE (Continued)

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.

NOTE K – SUBSEQUENT EVENT

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 for another 25 years and includes several reporting and compliance provisions.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Louisville Arena Authority, Inc. (LAA) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise LAA's financial statements, and have issued our report thereon dated May 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the LAA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and recommendations, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LAA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

LAA's Response to Findings

LAA's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. LAA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

May 17, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

LOUISVILLE ARENA AUTHORITY, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

FINDING 2016-01: The Louisville Arena Authority And The University Of Louisville Athletic Association Are Not Finalizing The Net Annual Payment By The Deadline Established In The Lease Agreement

As part of a 2008 lease agreement, the Louisville Arena Authority (LAA) shares certain revenues from arena events with the University of Louisville Athletic Association (ULAA). The lease agreement dictates the various types of shared revenues and the corresponding percentages owed to each party. The lease agreement also describes the method and timing of the financial settlement. The financial settlement covers a single basketball season. Because the basketball season spans two calendar years, both the 2016 and 2017 settlements are needed in order to determine certain amounts to be recorded in the 2016 LAA financial statements, including accounts payable, accounts receivable, expenses, and revenues related to the lease agreement.

According to the lease agreement, the annual net payment for the various shared revenues and expenses is to be calculated mutually by April 20, and payment is to be made no later than April 30. In 2017, neither the annual net payment calculation nor the payment were completed within the timeframe required by the contract. The 2017 settlement was dated May 1, 2017, and reflected a balance of $1,356,528 due from ULAA to LAA. According to the management company under contract with LAA, this payment is expected to be made shortly after the settlement date.

To determine if this is a one-time occurrence or a more pervasive compliance concern, the 2016 settlement was reviewed. The 2016 settlement was dated May 24, 2016, and reflected a balance of $1,381,474 due from ULAA to LAA. The payment was wired to LAA on June 22, 2016. Therefore, as in 2017, the 2016 annual net payment was not calculated and the payment was not made within the timeframe required by the contract.

The delay in calculating the 2017 settlement was due to both parties not providing information timely. In order to meet the contractual deadlines for the settlement, ULAA requires information from LAA regarding its signage contract with a vendor. Delays in obtaining this information resulted in ULAA's delays in finalizing its settlement.

Failure to complete the settlement within the timeframe established in the lease agreement decreases the time available to review the data in the settlement for compliance with underlying revenue sharing stipulations and for assurance that the proper amount has been calculated by both parties. Therefore, the delays in finalizing the settlement increase the risk of errors going undetected.

Because of the magnitude of the amounts owed from ULAA to LAA and the financial challenges facing LAA, this delay in settlement could also lead to cash flow issues for LAA.

FINDING 2016-01: The Louisville Arena Authority And The University Of Louisville Athletic Association Are Not Finalizing The Net Annual Payment By The Deadline Established In The Lease Agreement (Continued)

The continuing disclosure agreement for LAA's bonds sets an Annual Report Filing Date of 15 days prior to 150 days after the end of LAA's fiscal year. By that date, financial statements must be filed with the dissemination agent. LAA has made it clear their desire is to present audited financial statements as part of their annual report. Because certain financial statement accounts cannot be confirmed until review of a completed settlement with ULAA has occurred, the further past due the settlement is completed, the more difficult it becomes to effectively review the settlement and complete the audit in a timeframe that meets the bond reporting requirements.

Section 7.1(j) of the lease agreement between LAA and ULAA, dated July 3, 2008 states in relevant part:

> In lieu of Landlord and Tenant making multiple periodic payments of the amounts that are owed to each other under this Lease, all Landlord Payables and all Tenant Payables shall be paid solely through calculation and payment of the Annual Net Payment as provided in this Section 7.1(j). No portion of the Landlord Payables or Tenant Payables shall be due or payable except at the time and in the amount provided in this Section 7.1(j). The Annual Net Payment shall be calculated mutually by Landlord and Tenant not later than April 20 of each year during the Term and shall be based on all Landlord Payables and all Tenant Payables accrued through the date of calculation. Within 10 days after the date on which Landlord and Tenant have mutually determined the Landlord Payables and the Tenant Payables, but not later than April 30, Landlord or Tenant, as the case may be, will pay to the other Party the amount of the Annual Net Payment.

Recommendation

We recommend coordination between LAA, ULAA, and other third parties be improved so that the annual net payment can be finalized by April 20 and the corresponding payment be made by April 30. This will improve the oversight and review of the annual net payment by providing more time for the parties to confirm the information prior to the final compilation of the financial statements and the Annual Report Filing Date. Improving coordination and complying with the agreement will also ensure LAA receives amounts owed to them by ULAA in a timely manner.

LOUISVILLE ARENA AUTHORITY, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

FINDING 2016-01: The Louisville Arena Authority And The University Of Louisville Athletic Association Are Not Finalizing The Net Annual Payment By The Deadline Established In The Lease Agreement (Continued)

Management's Response and Planned Corrective Action

The Louisville Arena Authority, Inc. ("LAA") recognizes the importance of calculating the annual settlement with ULAA by the deadlines set forth in the Lease Agreement. The State Auditor noted that the delay in calculating the 2017 settlement was due to both parties not providing information timely. The timeline for calculating the settlement amount is extremely compressed, because the contractual deadline for making the calculation is April 20 of each year, and some of the revenue amounts cannot be calculated until after March 31 of each year (the end of the final month of each home season for Men's and Women's basketball). An example is concession and catering revenue, which information must be provided by LAA to ULAA. In other situations, LAA is reliant on a vendor for information and the vendor may be simply late in providing that information (the State Auditor's Finding noted a delay in obtaining information from LAA's signage contract vendor). In each case, LAA must annually obtain information from its concession and signage vendors and forward that information to ULAA.

In order to improve the information gathering process so that the annual settlement amount can be calculated and paid in a timely manner, LAA will take the following steps:

- *Through electronic calendaring, provide an internal reminder on each March 25 for AEG, manager of the Arena for LAA, requiring that it send notice on April 1 to each vendor responsible for providing information to ULAA and stating that such information will be due by April 10.*
- *Develop a form notice to be sent to each vendor on each April 1, requesting the required information by April 10.*
- *Send a reminder notice to ULAA on April 1 that the settlement calculation is due by April 20, and requesting that ULAA use best efforts to provide its information to LAA by April 15. LAA will also indicate its best effort to provide its required information to ULAA by April 15.*
- *Through electronic calendaring, follow-up on April 10 with all vendors required to provide information.*
- *Through electronic calendaring, provide required information to ULAA by each April 15.*
- *Finalize and reach agreement on the settlement calculation with ULAA by each April 20, and confirm with ULAA (which makes the settlement payment) that the settlement payment will be made by April 30.*

LOUISVILLE ARENA AUTHORITY, INC.
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

FINDING 2016-01: The Louisville Arena Authority And The University Of Louisville Athletic Association Are Not Finalizing The Net Annual Payment By The Deadline Established In The Lease Agreement (Continued)

Management's Response and Planned Corrective Action (Continued)

- *Through electronic calendaring, verify that the settlement payment is made by April 30.*
- *In addition, the LAA will require language in all new or amended contracts with vendors/subcontractors whose revenue streams may be associated with this settlement to provide the necessary information in advance of the deadlines.*

LAA believes that these steps will enable it to gather information such that the annual settlement amount can be calculated and paid to LAA on or before the deadlines set forth in the ULAA Lease Agreement.