

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

**FINANCIAL STATEMENTS**  
December 31, 2017 and 2016

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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 statement of financial position as of December 31, 2017, 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.

### ***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 audit. We conducted our audit 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.

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(Continued)

**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, 2017, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of the Louisville Arena Authority, Inc. as of December 31, 2016 were audited by other auditors whose report dated May 17, 2017 expressed an unmodified opinion on those statements.

  
Crowe Horwath LLP

Louisville, Kentucky  
April 27, 2018

LOUISVILLE ARENA AUTHORITY, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,246,446	\$ 2,564,515
Interest receivable	-	60,943
Other receivables	1,315,443	2,332,480
Prepaid expenses	132,071	105,533
Restricted cash	130,506	630,406
Assets limited as to use – restricted to bond indenture	44,839,398	30,764,820
Property and equipment, net	<u>332,728,943</u>	<u>341,290,625</u>
<b>Total assets</b>	<b><u>\$ 382,392,807</u></b>	<b><u>\$ 377,749,322</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 1,784,370	\$ 3,545,314
Accrued expenses and other	2,493,290	3,795,017
Deferred revenues	1,568,791	2,321,903
Retainage payable	-	341,359
Note payable	3,875,000	4,375,000
Bonds payable	<u>378,061,129</u>	<u>346,271,443</u>
	387,782,580	360,650,036
Net assets		
Unrestricted	<u>(5,389,773)</u>	<u>17,099,286</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 382,392,807</u></b>	<b><u>\$ 377,749,322</u></b>

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues and support		
Metro Louisville guarantee	\$ 9,800,000	\$ 9,800,000
Tax increment financing payments	11,235,067	10,297,345
Naming rights revenue	1,359,280	1,332,630
Sponsorship revenue	2,351,115	3,278,754
Suite and premium seating revenue	1,668,765	1,747,765
Revenue from operations contract	2,200,000	2,383,576
Debt forgiveness	500,000	500,000
Other operating income	<u>209,522</u>	<u>233,546</u>
Total revenues and support	29,323,749	29,573,616
Operating expenses		
Depreciation	8,965,796	8,988,203
General and administrative	<u>2,252,158</u>	<u>2,242,040</u>
Total expenses	<u>11,217,954</u>	<u>11,230,243</u>
<b>Change in net assets before other revenue (expense)</b>	18,105,795	18,343,373
Other revenue (expense)		
Interest income	781,411	758,672
Interest expense	(21,038,396)	(22,414,794)
Realized loss on investments	(1,404,844)	-
Unrealized gain on investments	-	290,866
Litigation settlement recovery	1,441,359	-
Loss on debt refinance	<u>(20,374,384)</u>	<u>-</u>
Total other revenue (expenses)	<u>(40,594,854)</u>	<u>(21,365,256)</u>
<b>Change in net assets</b>	(22,489,059)	(3,021,883)
Net assets at beginning of year	<u>17,099,286</u>	<u>20,121,169</u>
<b>Net assets at end of year</b>	<u>\$ (5,389,773)</u>	<u>\$ 17,099,286</u>

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.  
 STATEMENTS OF CASH FLOWS  
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Changes in net assets	\$ (22,489,059)	\$ (3,021,883)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,826,647	9,838,262
Accretion of interest on bonds payable	907,899	1,172,053
Centerplate loan forgiveness	(500,000)	(500,000)
Unrealized gain on investments	-	(290,866)
Realized loss on investments	1,404,844	-
Litigation settlement recovery	(1,441,359)	-
Loss on bond refinance	20,374,384	-
Changes in:		
Interest receivable	60,943	-
Other receivables	1,017,037	388,763
Prepaid expenses	(26,538)	(2,069)
Accounts payable	(660,944)	(795,053)
Accrued expenses and other	(1,301,727)	(66,929)
Deferred revenues	<u>(753,112)</u>	<u>136,488</u>
Net cash provided by operating activities	6,419,015	6,858,766
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(404,114)	(70,260)
Net change in restricted cash	499,900	(101)
Net change in limited use cash	<u>(14,914,768)</u>	<u>(2,376,430)</u>
Net cash used in investing activities	(14,818,982)	(2,446,791)
<b>Cash flows from financing activities</b>		
Bond issuance costs	(16,381,034)	-
Payment on bonds payable	(3,052,860)	(2,744,697)
Proceeds from bond payable	<u>28,515,792</u>	<u>-</u>
Net cash provided by financing activities	<u>9,081,898</u>	<u>(2,744,697)</u>
Increase in cash and cash equivalents	681,931	1,667,278
Cash and cash equivalents at beginning of year	<u>2,564,515</u>	<u>897,237</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 3,246,446</u>	<u>\$ 2,564,515</u>
<b>Supplemental Information</b>		
Cash paid for interest	\$ 20,368,066	\$ 20,353,827
Non-cash financing activities		
Proceeds from bond issuance placed in escrow	\$ 365,458,292	\$ -

See accompanying notes to financial statements.

**NOTE A – NATURE OF AUTHORITY AND OPERATIONS**

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

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Basis of Accounting: The financial statements for the Authority have been prepared on the accrual basis of accounting.
2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.
3. Cash and Cash Equivalents: The Authority considers all highly liquid investments with a maturity when purchased of three months or less, and which are not designated for a specific purpose, to be cash equivalents. The Authority typically maintains balances in excess of federally insured limits.
4. Investment Valuation and Income Recognition: The Authority's investments are reported at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Realized gains and losses are reported in the change of net assets when securities are sold. Unrealized holding gains and losses are reported in the change in net assets at period end.
5. Other Receivables: Receivables from the Authority's various funding sources are recorded at their net realizable value based on contractual agreements. The Authority did not charge interest on past due receivables. At December 31, 2017 and 2016, 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.

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, 2017 and 2016.

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

8. Bond Issuance Costs: Bond issuance costs are amortized using the effective interest method over the life of the respective bond issues. Amortization expense was \$572,535 and \$613,124 for the years ended December 31, 2017 and 2016, respectively. Bond issuance costs, net of accumulated amortization are included in bonds payable in the accompanying statements of financial position. The bond issuance cost at December 31, 2017 and 2016 was \$16,381,033 and \$11,962,778. The related accumulated amortization at December 31, 2017 and 2016 was \$0 and \$6,721,024, respectively. Amortization expense for future years is approximately \$854,000 in 2018, \$854,000 in 2019, \$854,000 in 2020, \$844,000 in 2021 and \$832,000 in 2022.
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, 2017 or 2016. 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 2014 through 2017. The Authority does not expect its unrecognized tax benefits to significantly change in the next 12 months.

11. Subsequent events: Subsequent events for the Authority have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were issued.
12. Newly Issued Standards Not Yet Effective: FASB has issued accounting standard update (ASU) 2014-09, *Revenue from Contracts with Customers*, concerning the accounting for revenue recognition. The standard is effective for years beginning after December 15, 2017.

FASB has also issued ASU 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 ASU 2016-02, *Leases*, concerning the accounting for leases. The standard is effective for years beginning after December 15, 2018.

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

FASB has also issued ASU 2016-15, *Statement of Cash Flows: Certain Clarifications*, providing guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs. Such cash payments should be classified as cash out flows for financing activities. The standard is effective for years beginning after December 15, 2018.

FASB has also issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed. 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 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 was extended through June 30, 2027. The Agreement may be terminated by either party upon 90 days prior notice.

The fees for this contract include: 1) a Fixed Fee of \$700,000 for the year adjusted annually up to 1.5% throughout the term of the agreement in accordance with increases in the Consumer Price Index (“CPI”) for all Urban Consumers, 2) an Incentive Fee up to \$35,000 per year subject to operating results, 3) a signing bonus of \$1,000,000 due in May 2016 and \$500,000 due July 2022. The signing bonus was amortized through July 31, 2017. Amortization expense was \$610,000 and \$720,000 for 2017 and 2016. 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 2017 and \$1,500,000 for each year thereafter as adjusted by the CPI increase.

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

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LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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

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

	<u>2017</u>	<u>2016</u>
Accrued profit from operations	\$ 2,200,000	\$ 2,340,144
Management fee to AEG	(735,000)	(676,568)
Capital subsidy	125,000	-
Amortization of deferred management fee discount	<u>610,000</u>	<u>720,000</u>
Revenue from operations contract	<u>\$ 2,200,000</u>	<u>\$ 2,383,576</u>

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"). 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.

The Authority intends to honor its agreement with KSFB to settle all debts for \$1,471,910. The remaining liability of \$921,910 and \$1,021,910 due the KSFB is included as a component of accrued expenses and other in the accompanying Statement of Financial Position at December 31, 2017 and 2016, respectively.

The Authority paid the remaining liability to the KSFB on April 10, 2018 by making a lump sum payment of \$739,340 to KSFB.

The Authority and KSFB entered into a written Settlement Agreement and Mutual Release dated as of March 22, 2018, resolving all claims.

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 \$70,227 and \$86,660 at December 31, 2017 and 2016, respectively, is included in accrued expenses and other in the accompanying statements of financial position.
3. Humana Agreement: As part of the Definitive Property Sale and Relocation Agreement with Humana, Inc., 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, 2017 and 2016, the value related to the suite was \$839,693 and \$892,943, 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 Corporation, 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 and was extended through June 30, 2027.

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

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

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

In 2017, the Agreement was amended as follows: 1) The Term of the agreement was amended with an effective date of July 1, 2017 through June 30, 2027. 2) The Guaranteed QSP was adjusted to start at \$3,750,000, escalating each year up to \$5,650,000 in 2026-27. 3) In addition to the QSP, LASEP shall pay the LAA 50% of the annual Adjusted Gross Revenue (“AGR”) above the defined AGR Share Hurdle amounts noted in the Agreement. 3) LASEP shall make Capital Subsidy Payments totaling \$1,625,000 over the life of the amended Term. For 2017, this totaled \$125,000 and is included in Revenue from operations contract.

In addition, the original agreement provided 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. Team Services was not party to the contract extension executed in 2017.

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

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>
2018	\$ 1,407,162
2019	<u>1,435,305</u>
	<u>\$ 2,842,467</u>

5. PARC Agreements: The Authority entered into a Garage Operating Agreement with Parking Authority of River City (“PARC”), expiring September 30, 2044. Under the terms of the Agreement, PARC is responsible for the operations and maintenance of the garage. In addition, the agreement specifies parking requirements for basketball games and arena events. Under this agreement, the Authority agreed to pay PARC each fiscal year beginning January 1, 2011, the first \$90,000 and 50% of amounts exceeding \$90,000 of net revenue received by the Authority related to the sale of naming rights to the garage and sponsorship signage sold in and on the garage. As of December 31, 2017 and 2016, there was no signage in and on the garage.

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

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<sup>th</sup>) of the loan in favor of the Authority. During the years ended December 31, 2017 and 2016, Centerplate forgave approximately \$500,000 of this loan. Balance of loan is \$3,875,000 and \$4,375,000, which is, included in the note payable in the accompanying statements of financial position as of December 31, 2017 and 2016, respectively.

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

In 2017, the Agreement was amended as follows: 1) The Term was adjusted to terminate on the date which is first to occur of (i) September 30 of the year in which the commitment of the Commonwealth of Kentucky to pay tax increments to the Authority under the LAA Tax Increment Financing District terminates, or (ii) the date of the final payment of the Bonds (or any bonds which refund the Bonds), or (iii) September 30, 2054. 2) ULAA may assess a Ticket Surcharge of up \$8.00 per ticket sold on Men’s Basketball Games, with the Authority retaining the first \$2.00, and ULAA retaining up to \$6.00. 3) In addition to the obligations of ULAA to pay the Annual Net Payment to the Authority, ULAA shall remit an additional \$2,420,000 (“Additional Amount”) annually during each year of the Term to the Authority.

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)

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LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

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

Type of Event	Rental Amount
Private Suite Rentals and Premium Seating	12% of the net revenue for the year

Total premium suite and seating revenues of \$1,668,765 and \$1,747,765 were recorded for the years ended December 31, 2017 and 2016, respectively. This amount represents the pro-rata portion of the total revenues over the number of men's basketball games of the 2017-2018 and 2016-2017 seasons that have occurred as of December 31, 2017 and 2016.

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	Effective 2013, ULAA and the Authority agreed to fixed annual payments for permanent signage sales based on a gross revenue sharing calculation as defined in the Agreement for 2016, which includes signage (noted above).
Video Boards	Effective 2013, ULAA and the Authority agreed to fixed annual payments for permanent signage sales based on a gross revenue sharing calculation as defined in the Agreement for 2016, which includes signage (noted above).

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 \$1,608,902 and \$1,576,123 for the years ended December 31, 2017 and 2016, respectively. The related liabilities included in accounts payable at December 31, 2017 and 2016 are \$593,902 and \$601,697, 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, 2017 and 2016, a net receivable exists from ULAA of \$328,585 and \$372,891, respectively.

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(Continued)

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

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, 2017 and 2016, \$534,111 and \$697,513 is included in deferred revenues in the accompanying statements of financial position.

9. Funding Agreements: The Authority 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.

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

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

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

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(Continued)

**NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS**

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

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

Senior Reserve Fund - This fund is to be maintained while the bonds remain outstanding and is to be used to satisfy Senior Bond Sinking Fund and Senior Interest Fund (the "Senior Funds") obligations, if such amounts in the Senior Funds are insufficient. At December 31, 2017, the balance at cost was \$15,593,882.

Senior Interest Fund - This fund is used to hold deposits used solely to pay interest on the Senior Bonds and to pay any reimbursement obligations to the bond issuer (the "Senior Interest Funds"). At December 31, 2017, the balance was \$15,963,923.

Renovation Replacement Fund - This fund is used to hold deposits for potential future repairs, renovations and replacements. At December 31, 2017, the balance was \$13,145,629.

Excess Net Cash Flow Fund – This fund is available for transfer to the Renovation and Replacement Fund, and Operation and Maintenance account on Senior Reserve Fund. At December 31, 2017, the balance was \$135,964.

Operation and Maintenance Account – This Fund is used for the payment of debt service and to restore amounts to the Senior Reserve Fund. At December 31, 2017, the balance was \$0.

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 2008 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, the balance at cost was \$15,975,598.

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, the balance at cost was \$1,057,547.

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, the balance was \$30.

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(Continued)



LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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**NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS** (Continued)

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, the balance was \$295,604.

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, 2016, the balance was \$1,180,275, respectively.

Metro Revenue Fund - This fund is used to hold the deposits from Metro pursuant to its financing agreement with the Authority. These funds are used to pay interest and principle of the Senior Bonds. At December 31, 2016, the balance was \$6,838,810.

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, the balance was \$3,369,413.

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

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, the balance was \$0.

**NOTE E – OTHER RECEIVABLES**

Other receivables at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
ULAA lease receivable	\$ 922,481	\$ 974,588
Sponsorship payments receivable	203,460	1,214,516
Other	<u>189,502</u>	<u>143,376</u>
	<u>\$ 1,315,443</u>	<u>\$ 2,332,480</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, 2017 and 2016, the investments consist of the following:

	<u>2017</u>	<u>2016</u>
Cash	\$ 44,839,398	\$ -
Commercial paper	-	13,444,943
Guaranteed investment contracts	<u>-</u>	<u>17,319,877</u>
	<u>\$ 44,839,398</u>	<u>\$ 30,764,820</u>

(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

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**NOTE F – ASSETS LIMITED AS TO USE** (Continued)

Pursuant to the terms of the guaranteed investment contracts, the Authority received investment income equal to 4.673% per annum. The contracts included 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 were liquidated in 2017 for a loss of \$1,404,844 was realized.

**NOTE G – PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 91,605,539	\$ 91,605,539
Building and improvements	284,209,605	284,034,305
Equipment	21,795,174	21,570,979
Furniture and fixtures	6,211,910	6,207,291
Software	<u>79,134</u>	<u>79,134</u>
	403,901,362	403,497,248
Accumulated depreciation and amortization	<u>(71,172,419)</u>	<u>(62,206,623)</u>
	<u>\$ 332,728,943</u>	<u>\$ 341,290,625</u>

**NOTE H – BONDS PAYABLE**

On December 1, 2017, the Authority issued \$202,125,000 Series 2017A Bonds and \$175,640,000 Taxable Series 2017B Bonds, in order to a) refund the outstanding Series 2008A, 2008B and 2008C Series Bonds; b) fund a debt service reserve; c) provide certain working capital funds; d) fund a renovation and replacement fund; and d) pay expenses and costs incurred in connection with the issuance of the Bonds. \$365,458,292 has been deposited into escrow and held in cash or used to purchase permitted investments, and will provide for all future debt service on the Series 2008 Bonds. Should amounts in escrow be insufficient to service debt, the Authority would be responsible for any shortfall. As of December 31, 2017, no shortfall is projected and no liability is accrued. The Authority has removed the 2008 Series Bonds from its accounts, in the amount of \$345,113,246, net debt issuance costs and discounts including accreted interest. The defeased principal amount outstanding as of December 31, 2017 was \$338,172,920.

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

The bonds are insured by a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. (the "Bond Insurer"), which guarantees the scheduled payments of principal and interest on the bonds when due. The Bond Insurer also issued a municipal bond debt service reserve insurance policy in the amount of \$15,393,882, and a \$10,000,000 liquidity reserve policy to make cash available to the Authority under certain circumstances through December 1, 2024.

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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

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

	Series 2017A Bonds	Series 2017B Bonds	Total
<u>Sources</u>			
Par Amount	\$ 202,125,000	\$ 175,640,000	\$ 377,765,000
Net Original Issue Premium	16,677,163	-	16,677,163
Existing Debt Service Reserve Fund	<u>8,703,297</u>	<u>7,209,658</u>	<u>15,912,955</u>
 Total Sources	 <u>\$ 227,505,460</u>	 <u>\$ 182,849,658</u>	 <u>\$ 410,355,118</u>
<u>Uses</u>			
Deposit to Escrow Fund	\$ 209,506,475	\$ 155,951,817	\$ 365,458,292
Deposit to Operation and Maintenance Account <sup>1</sup>	-	921,910	921,910
Deposit to Renovation and Replacement Fund	-	12,000,000	12,000,000
Deposit to Debt Service Reserve Fund	8,343,583	7,250,299	15,593,882
Cost of Issuance <sup>2</sup>	<u>9,655,402</u>	<u>6,725,632</u>	<u>16,381,034</u>
 Total Uses	 <u>\$ 227,505,460</u>	 <u>\$ 182,849,658</u>	 <u>\$ 410,355,118</u>

<sup>1</sup> Includes a payment to Kentucky State Fair Board.

<sup>2</sup> Includes costs of issuance, Underwriter's discount, bond insurance premium, cost of debt service reserve surety and cost of liquidity reserve policy.

Information regarding the Series 2017 bonds totaling \$378,061,129 and outstanding at year end 2017 are below:

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

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

	Principal Balance	Interest Rate	Matures December 1,
	\$ 47,340,000	4.00%	2041
	96,015,000	5.00%	2045
	<u>58,770,000</u>	5.00%	2047
	202,125,000		
Issuance premium	16,677,163		
Debt issuance costs	<u>(9,655,402)</u>		
 Total	 <u>\$ 209,146,761</u>		

(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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

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

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

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

	<u>Principal Balance</u>	<u>Interest Rate</u>	<u>Matures December 1,</u>
\$	3,705,000	2.967%	2021
	4,165,000	3.217%	2022
	4,650,000	3.349%	2023
	5,225,000	3.549%	2024
	5,765,000	3.621%	2025
	6,335,000	3.721%	2026
	6,985,000	3.821%	2027
	7,640,000	3.921%	2028
	8,330,000	4.021%	2029
	9,065,000	4.121%	2030
	9,840,000	4.171%	2031
	10,665,000	4.191%	2032
	11,470,000	4.225%	2033
	12,380,000	4.255%	2034
	13,345,000	4.305%	2035
	14,360,000	4.355%	2036
	15,435,000	4.405%	2037
	16,575,000	4.435%	2038
	<u>9,705,000</u>	4.455%	2039
	175,640,000		
Issuance premium	-		
Debt issuance costs	<u>(6,725,632)</u>		
Total	<u>\$ 168,914,368</u>		

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

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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

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

Aggregate maturities on bonds payable (at their repayment value) at December 31, 2017 are as follows:

<u>Year ending</u> <u>December 1,</u>	<u>Principal</u>	<u>Accrued</u> <u>Interest</u>
2018	\$ -	\$ 15,963,923
2019	-	16,853,408
2020	-	16,853,408
2021	3,705,000	16,853,408
2022	4,165,000	16,743,481
Thereafter	<u>369,895,000</u>	<u>296,658,103</u>
Total aggregate maturities	<u>\$ 377,765,000</u>	<u>\$ 379,925,731</u>

The fair value of the bonds at December 31, 2017 and 2016 was approximately \$377,765,000 and \$368,000,000, respectively. The fair value of long-term bonds payable are primarily based on the prices at which similar bonds have recently traded in the market and also considering the overall market conditions on the date of valuation.

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

Information regarding the Series 2008 bonds outstanding at year end 2016 (which Series 2008 bonds were defeased during 2017) are below:

	<u>2016</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 \$543,417 at December 31, 2016. 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

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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

	<u>2016</u>
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 at December 31, 2016. 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
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 at December 31, 2016. 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
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 at December 31, 2016. 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
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 at December 31, 2016, respectively. Maturity dates vary from December 1, 2012 through December 1, 2024. These bonds are not subject to redemption prior to maturity.	32,809,832

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2017 and 2016

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

	<u>2016</u>
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.	18,920,000
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.	<u>9,900,000</u> 351,513,197 <u>(5,241,754)</u>
Less unamortized debt issuance costs	<u>\$ 346,271,443</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 \$236,935 for the year ended December 31, 2016.

**NOTE I – FAIR VALUE**

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

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

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

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

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(Continued)

LOUISVILLE ARENA AUTHORITY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

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**NOTE I – FAIR VALUE** (Continued)

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, 2017 Significant Other Observable Inputs (Level 1)	Fair Value Measurement at December 31, 2016 Significant Other Observable Inputs (Level 2)
<b>Assets</b>		
Assets limited to use:		
Cash	\$ 44,839,398	\$ -
Commercial paper	-	13,444,943
Guaranteed investment contracts	-	17,319,877
	<u>\$ 44,839,398</u>	<u>\$ 30,764,820</u>

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

Commercial Paper: Fair values are estimated to approximate carrying value 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.

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**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.