LOUISVILLE ARENA AUTHORITY, INC.
Louisville, Kentucky

FINANCIAL STATEMENTS
December 31, 2020 and 2019

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CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Louisville Arena Authority, Inc., which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Crowe LLP
Crowe LLP

Louisville, Kentucky
May 27, 2021

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 4,440,836	$ 7,331,846
Other receivables	587,296	1,177,801
Prepaid expenses	300,392	227,237
Assets limited as to use – restricted to bond indenture	81,979,267	70,672,126
Property and equipment, net	308,591,628	317,325,343
Total assets	$ 395,899,419	$ 396,734,353
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 350,625	$ 847,052
Accrued expenses and other	3,259,351	3,343,202
Deferred revenues	52,691	2,346,284
Note payable	2,901,639	2,875,000
Bonds payable	378,672,349	378,468,609
	385,236,655	387,880,147
Net assets		
Without donor restrictions	10,662,764	8,854,206
Total liabilities and net assets	$ 395,899,419	$ 396,734,353

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended December 31, 2020 and 2019

	2020	2019
Operating revenues and support		
Metro Louisville guarantee	$ 10,800,000	$ 10,800,000
Tax increment financing payments	13,369,436	11,403,173
Naming rights revenue	1,226,478	1,414,199
Sponsorship revenue	4,483,391	6,368,790
Suite and premium seating revenue	1,092,120	1,611,428
Revenue from operations contract	-	2,430,137
Debt forgiveness	-	500,000
Capital subsidy	375,000	250,000
Other operating income	220,983	190,775
Total revenues and support	31,567,408	34,968,502
Operating expenses		
Depreciation	9,124,852	8,930,404
Professional fees	367,332	360,585
Sponsorships	407,585	564,161
Signage	807,435	936,652
Loss from operations contract	2,037,112	-
Other expenses	305,057	203,338
Total expenses	13,049,373	10,995,140
Change in net assets before other revenue (expense)	18,518,035	23,973,362
Interest revenue (expense)		
Interest income	377,368	1,273,285
Interest expense	(17,086,845)	(17,054,426)
Total interest revenue (expense)	(16,709,477)	(15,781,141)
Change in net assets	1,808,558	8,192,221
Net assets at beginning of year	8,854,206	661,985
Net assets at end of year	$ 10,662,764	$ 8,854,206

See accompanying notes to financial statements.

LOUISVILLE ARENA AUTHORITY, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 1,808,558	$ 8,192,221
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,328,592	9,134,143
Centerplate loan forgiveness	-	(500,000)
Changes in:		
Other receivables	590,505	(5,948)
Prepaid expenses	(73,155)	(91,700)
Accounts payable and note payable	(469,788)	(35,379)
Accrued expenses and other	(83,851)	(115,537)
Deferred revenues	(2,293,593)	920,204
Net cash provided by operating activities	8,807,268	17,498,004
Cash flows from investing activities		
Purchases of property and equipment	(391,137)	(2,112,777)
Net change in assets limited as to use – restricted to bond indenture	(11,307,141)	(11,179,108)
Net cash used in investing activities	(11,698,278)	(13,291,885)
Cash flows from financing activities	-	-
Increase (decrease) in cash and cash equivalents	(2,891,010)	4,206,119
Cash and cash equivalents at beginning of year	7,331,846	3,125,727
Cash and cash equivalents at end of year	$ 4,440,836	$ 7,331,846
Supplemental Information		
Cash paid for interest	$ 16,853,409	$ 16,853,409

See accompanying notes to financial statements.

NOTE A – NATURE OF AUTHORITY AND OPERATIONS

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

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

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

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

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

5. Other Receivables: Receivables from the Authority’s various funding sources are recorded at their net realizable value based on contractual agreements. The Authority does not charge interest on past due receivables. At December 31, 2020 and 2019, no allowance was required as management considered all receivables to be collectible.

6. Assets Limited as to Use: The Authority has established separate accounts to hold assets limited as to use for the senior interest fund, senior bond sinking fund, subordinate interest fund, subordinate bond sinking funds, excess net cash flow, arena revenue fund, TIF revenue fund, renovation and

(Continued)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

replacement, and Metro revenue fund to be funded and utilized as established in the Bond Trust Indenture (See Note D).

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

   The Authority reviews for the impairment of long-lived assets subject to depreciation and amortization, including property and equipment, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in accordance with ASC 350 and ASC 360. Specifically, this process involves comparing the Authority's asset carrying values to the estimated undiscounted future cash flows the assets are expected to generate over their remaining lives. If this process were to result in the conclusion that the carrying value of long-lived assets would not be recoverable, then a write down of the assets would be recorded through a charge to earnings equal to the difference in the fair value of the assets and their carrying value. No such impairment losses were recognized for the years ended December 31, 2020 and 2019.

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 $853,700 and $853,698 for years ended December 31, 2020 and 2019, respectively. Bond issuance costs, net of accumulated amortization is included in bonds payable in the accompanying statements of financial position. The bond issuance cost at December 31, 2020 and 2019 was $13,819,937 and $14,673,636, respectively. The related accumulated amortization at December 31, 2020 and 2019 was $2,561,097 and $1,707,397, respectively. Amortization expense for future years is approximately $844,000, in 2021, $832,000 in 2022, $820,000 in 2023, $805,000 in 2024 and $790,000 in 2025.

9. Deferred Revenues: Deferred revenues represent those funds received as deposits for equipment lease revenues, naming rights, and sponsorship revenues. The deferred revenues will be recognized as income in following years based on the duration of the agreement.

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

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

    The Authority has no material uncertain income tax positions which would result in a liability to the Authority. The Authority recognizes interest and/or penalties related to income tax matters in income tax expense. The Authority recognized no interest or penalties on income taxes in its statements of activities and changes in net assets for the years ended December 31, 2020 or 2019. Due to its tax-exempt status, the Authority is not subject to U.S. federal income tax or state income tax.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2017 through 2020. The Authority does not expect its unrecognized tax benefits to significantly change in the next 12 months.

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

NOTE C – CONTRACTUAL ARRANGEMENTS

1. Event Management 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 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.

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 not meet this or exceed this Performance Expectation during each of any two consecutive Operating Years, upon notice from the Authority, 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.

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

	2020	2019
Accrued profit from operations	$ -	$ 2,200,000
Management fee to AEG	(730,184)	(736,058)
Amount in excess of performance contract	-	966,195
Operational losses	(1,260,473)	-
Other settlement	(46,455)	-
	$ (2,037,112)	$ 2,430,137

(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 $16,756 and $35,303 at December 31, 2020 and 2019, 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, 2020 and 2019, the value related to the suite was $656,225 and $721,529, respectively, which is included in accrued expenses and other in the accompanying statements of financial position. The amortization period extends through 2028.

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

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

   In exchange for the exclusive sponsorship rights, LASEP agreed to pay the Authority a qualified sponsorship payment ("QSP") annually. The QSP was calculated as a percentage of gross revenues (as defined per the agreement), or an annual minimum of $2,500,000 for 2016. For the first $4,000,000 of gross revenues (as defined per the agreement), the Authority 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 as 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. The payments for 2021 and 2022 are subject to ongoing negotiation. 4) LASEP shall make Capital Subsidy Payments totaling $1,625,000 over the life of the amended Term. This totaled $375,000 and $250,000 in 2020 and 2019, respectively, and is included in revenue from operations contract in the accompanying statements of activities and changes in net assets.

5. Naming Rights: The current naming rights agreement is with Yum! Brands, Inc. with an effective date from October 1, 2020 through September 30, 2031. The first two years of the contract contain a performance condition based on the number of regular season, televised University of Louisville varsity men's basketball games in the Arena and the remaining nine years are based on contractual annual payments. There was no performance condition in the prior year. Naming rights revenue recognized in 2020 and 2019 was $1,226,478 and $1,414,199, respectively.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

6. PARC Agreements: The Authority entered into a Garage Operating Agreement with Parking Authority of River City ("PARC"), expiring September 30, 2044. Under the terms of the Agreement, PARC is responsible for the operations and maintenance of the garage. In addition, the agreement specifies parking requirements for basketball games and arena events. Under this agreement, the Authority agreed to pay PARC each fiscal year beginning January 1, 2011, the first $90,000 and 50% of amounts exceeding $90,000 of net revenue received by the Authority related to the sale of naming rights to the garage and sponsorship signage sold in and on the garage. As of December 31, 2020 and 2019, there was no signage in and on the garage.

7. Centerplate Agreement: The Authority has a Concessions and Catering Services Agreement with Service America Corporation, d/b/a Centerplate ("Centerplate"). The agreement provides for Centerplate to be the sole provider of concessions and catering services in the arena. The agreement expires on December 31, 2021 with the option to be extended for two additional five-year periods at the agreement of both parties. Effective December 31, 2020, a one year extension was approved. 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 year ended December 31, 2019, Centerplate forgave approximately $500,000 of this loan. In 2020, the Agreement was amended as follows: 1) The Term of the Agreement was extended for one year and shall now expire on December 31, 2021; 2) The amortization of the loan as described in the paragraph above was suspended for a period of one-year, effective March 13, 2020 resuming March 13, 2021, due to the disruption of business from the COVID-19 Pandemic. The outstanding balance of this loan is $2,901,639 and $2,875,000 as of December 31, 2020 and 2019, respectively, which is classified as a note payable in the accompanying statements of financial position.

8. ULAA Agreement: The Authority entered into a Lease Agreement with the University of Louisville Athletic Association, Inc. ("ULAA") as of July 3, 2008. The agreement ensures the arena is designed to meet ULAA's needs as the primary tenant and 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. This is included in sponsorship revenue and is treated as an operating lease. There is no purchase option at the termination of the lease agreement.

(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 $1,092,120 and $1,611,428 were recorded for the years ended December 31, 2020 and 2019, respectively. This amount represents the pro-rata portion of the total revenues over the number of men's basketball games of the 2020-2021 and 2019-2020 seasons that have occurred as of December 31, 2020 and 2019.

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.

(Continued)

NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

Type of Revenue	Allocation of Revenues
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 $1,215,020 and $1,500,813 for the years ended December 31, 2020 and 2019, respectively. The related liabilities included in accounts payable at December 31, 2020 and 2019 are $267,679 and $599,691, 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. At December 31, 2020, the Authority had a net payable to ULAA of $19,735. At December 31, 2019, The Authority had a net receivable from ULAA of $208,081.

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

   As of December 31, 2020, 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, 2020 and 2019, $52,691 and $207,306 is included in deferred revenues in the accompanying statements of financial position.

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

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NOTE C – CONTRACTUAL ARRANGEMENTS (Continued)

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

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

NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS

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

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

Senior Reserve Fund: This fund is to be maintained while the bonds remain outstanding and is to be used to satisfy Senior Bond Sinking Fund and Senior Interest Fund (the "Senior Funds") obligations, if such amounts in the Senior Funds are insufficient. At December 31, 2020 and 2019, the balance at cost was $15,593,882 and $15,593,883, respectively.

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, 2020 and 2019, the balance was $82,893 and $368,652, respectively.

Renovation Replacement Fund: This fund is used to hold deposits for potential future repairs, renovations and replacements. At December 31, 2020 and 2019, the balance was $11,633,534 and $11,572,050, respectively.

Excess Net Cash Flow Fund: This fund is available for transfer to the Renovation and Replacement Fund, and Operation and Maintenance account on Senior Reserve Fund. At December 31, 2020 and 2019, the balance was $38,922,371 and $23,656,674, respectively.

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, 2020 and 2019, the balance was $0.

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NOTE D – CONTRACTUAL ARRANGEMENT OF BONDS (Continued)

Arena Revenue Fund: Arena revenues will be deposited into this fund. At December 31, 2020 and 2019, the balance was $1,290 and $5,636,476, respectively.

TIF Revenue Fund: TIF revenues will be deposited into this fund. At December 31, 2020 and 2019, the balance was $4,943,577 and $3,010,509, respectively.

Metro Revenue Fund: Metro revenues will be deposited into this fund. At December 31, 2020 and 2019, the balance was $10,801,720 and $10,833,882, respectively.

NOTE E – OTHER RECEIVABLES

Other receivables at December 31, 2020 and 2019 consist of the following:

	2020	2019
ULAA lease receivable	$ 247,944	$ 807,772
YUM naming rights	150,000	-
Sponsorship payments receivable	125,000	250,000
Other	64,352	120,029
	$ 587,296	$ 1,177,801

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, 2020 and 2019, investments consist of the following:

	2020	2019
Money market funds	$ 81,979,267	$ 70,672,126

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consist of the following:

	2020	2019
Land and land improvements	$ 91,605,539	$ 91,605,539
Building and improvements	284,209,605	284,209,605
Equipment	24,589,660	24,198,523
Furniture and fixtures	6,224,321	6,224,321
Software	79,134	79,134
	406,708,259	406,317,122
Accumulated depreciation and amortization	(98,116,631)	(88,991,779)
	$ 308,591,628	$ 317,325,343

(Continued)

NOTE G – PROPERTY AND EQUIPMENT (Continued)

Depreciation expense recorded was $9,124,852 and $8,930,404 for years ended December 31, 2020 and 2019, respectively.

NOTE H – BONDS PAYABLE

On December 1, 2017, the Authority issued $202,125,000 Series 2017A Bonds and $175,640,000 Taxable Series 2017B Bonds, in order to a) refund the outstanding Series 2008A, 2008B and 2008C Series Bonds; b) fund a debt service reserve; c) provide certain working capital funds; d) fund a renovation and replacement fund; and d) pay expenses and costs incurred in connection with the issuance of the Bonds. $365,458,292 has been deposited into escrow and held in cash or used to purchase permitted investments and will provide for all future debt service on the Series 2008 Bonds. Should amounts in escrow be insufficient to service debt, the Authority would be responsible for any shortfall. As of December 31, 2020, no shortfall is projected, and no liability is accrued. The Authority has removed the 2008 Series Bonds from its accounts, in the amount of $345,113,246, net debt issuance costs and discounts including accreted interest. The legally defeased principal amount outstanding as of December 31, 2020 and 2019 was $15,023,728 and $16,141,732, respectively.

The Series 2017 bonds were issued at a premium. The amount of the original premium for the Series 2017 bonds was $16,677,163. This premium is being amortized using the effective interest method over the life of the respective bonds. There was no amortization (interest expense) recognized during 2017 related to this bond issue. Total amortization recognized in 2020 and 2019 was $649,959.

At December 31, 2020 and 2019, bonds payable was as follows, including unamortized discount and debt issuance costs:

	2020	2019
Series 2017A Bonds	$ 208,325,425	$ 208,599,069
Series 2017B Bonds	170,346,924	169,869,540
Total	$ 378,672,349	$ 378,468,609

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.

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

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

(Continued)

NOTE H – BONDS PAYABLE (Continued)

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

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

Information regarding the Series 2017 bonds totaling $378,672,349 and $378,468,609 outstanding at December 31, 2020 and 2019, respectively, are below:

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

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

Matures December 1,	2020 Principal Balance	2019 Principal Balance	Interest Rate
2041	$ 47,340,000	$ 47,340,000	4.00%
2045	96,015,000	96,015,000	5.00%
2047	58,770,000	58,770,000	5.00%
	202,125,000	202,125,000	
Issuance premium	14,727,286	15,377,245	
Debt issuance costs	(8,526,861)	(8,903,176)	
Total	$ 208,325,425	$ 208,599,069	

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

NOTE H – BONDS PAYABLE (Continued)

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

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

Matures December 1,	2020 Principal Balance	2019 Principal Balance	Interest Rate
2021	$ 3,705,000	$ 3,705,000	2.967%
2022	4,165,000	4,165,000	3.217%
2023	4,650,000	4,650,000	3.349%
2024	5,225,000	5,225,000	3.549%
2025	5,765,000	5,765,000	3.621%
2026	6,335,000	6,335,000	3.721%
2027	6,985,000	6,985,000	3.821%
2028	7,640,000	7,640,000	3.921%
2029	8,330,000	8,330,000	4.021%
2030	9,065,000	9,065,000	4.121%
2031	9,840,000	9,840,000	4.171%
2032	10,665,000	10,665,000	4.191%
2033	11,470,000	11,470,000	4.225%
2034	12,380,000	12,380,000	4.255%
2035	13,345,000	13,345,000	4.305%
2036	14,360,000	14,360,000	4.355%
2037	15,435,000	15,435,000	4.405%
2038	16,575,000	16,575,000	4.435%
2039	9,705,000	9,705,000	4.455%
	175,640,000	175,640,000	
Issuance premium	-	-	
Debt issuance costs	(5,293,076)	(5,770,460)	
Total	$ 170,346,924	$ 169,869,540	

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

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

NOTE H – BONDS PAYABLE (Continued)

Aggregate maturities on bonds payable (at their repayment value) at December 31, 2020 are as follows:

Year ending December 1,	Principal	Accrued Interest
2021	$ 3,705,000	$ 16,853,408
2022	4,165,000	16,743,481
2023	4,650,000	16,609,493
2024	5,225,000	16,453,765
2025	5,765,000	16,268,329
Thereafter	354,255,000	263,290,439
Total aggregate maturities	$ 377,765,000	$ 346,218,915

The fair value of the bonds at December 31, 2020 and 2019 was approximately $415,228,539 and $412,389,402, respectively. The fair value of long-term bonds payable are primarily based on the prices at which similar bonds have recently traded in the market and also considering the overall market conditions on the date of valuation.

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

NOTE I – FAIR VALUE

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

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

> Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
>
> Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Authority's own assumptions.

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

(Continued)

NOTE I – FAIR VALUE (Continued)

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

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

	Fair Value Measurement at December 31, 2020 (Level 1)	Fair Value Measurement at December 31, 2019 (Level 1)
Assets limited to use:		
Money market funds	$ 81,979,267	$ 70,672,126

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

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

NOTE J – COMMITMENTS AND CONTINGENCIES

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

NOTE K – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	2020	2019
Cash and cash equivalents	$ 4,440,836	$ 7,331,846
Other receivables	587,296	1,177,801
Total	$ 5,028,132	$ 8,509,647

(Continued)

NOTE K – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

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

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

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

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

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

NOTE L – FUNCTIONAL EXPENSES

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

	Management and General	Program Services	Total
Depreciation	$ 122,164	$ 9,002,688	$ 9,124,852
Professional fees	367,332	-	367,332
Sponsorships	-	407,585	407,585
Signage	-	807,435	807,435
Other expenses	2,342,169	-	2,342,169
Interest expense	228,760	16,858,085	17,086,845
	$ 3,060,425	$ 27,075,793	$ 30,136,218

(Continued)

NOTE L – FUNCTIONAL EXPENSES (Continued)

Expenses categorized by their functional classification for the year ended December 31, 2019 are as follows:

	Management and General	Program Services	Total
Depreciation	$ 119,561	$ 8,810,843	$ 8,930,404
Professional fees	360,585	-	360,585
Sponsorships	-	564,161	564,161
Signage	-	936,652	936,652
Other expenses	203,338	-	203,338
Interest expense	228,326	16,826,100	17,054,426
	$ 911,810	$ 27,137,756	$ 28,049,566

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