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Auditor Mike Harmon Releases Results of Financial Statement Audit of Louisville Arena Authority

Report details one finding, additional observations to be presented to legislative panel in June

FRANKFORT, Ky. (May 18, 2017) – Mike Harmon, Kentucky’s 47th Auditor of Public Accounts, today released the results of a financial statement audit conducted by his office of the Louisville Arena Authority (LAA), which was created in 2006 to oversee the financial management of the KFC Yum! Center.

“Concerns have been raised for some time about the management of the KFC Yum! Center, especially in light of projections that the arena’s current revenue will not be sufficient to make the required bond payments as early as 2020,” said Auditor Harmon. “This is a situation that must be addressed, and it is of particular concern that although the state legislature has enabled an extension of the TIF district revenue for the arena, there is no firm commitment from other key parties to provide additional funds.”

Auditor Harmon’s office began its audit work in January following a request from members of the Capital Projects and Bond Oversight Committee to conduct an audit of LAA. The audit focused on the financial operations of LAA for the fiscal year ending December 31, 2016, and the audit report presents an unmodified opinion on the financial statements.

The single finding in the financial statement audit relates to the failure to timely finalize the annual payment under a lease agreement between LAA and the University of Louisville Athletics Association (ULAA), which sets forth the revenue-sharing arrangements between the two parties.

Under the terms of the lease agreement, the payment is to be calculated by April 20 of each year and made by April 30. In the two years reviewed by auditors, 2016 and 2017, both the calculation and payment were completed after these deadlines. The delay was caused by both
ULAA and LAA not providing information to each other in a timely manner. As a result of the delay, there is an increased risk of undetected errors in the calculation and cash flow problems for LAA. The audit recommends better coordination between LAA, ULAA, and other third parties to ensure the deadlines are met, and to “improve the oversight and review of the annual net payment by providing more time for the parties to confirm the information.”

A letter addressed to LAA board chairman Scott Cox, which was transmitted with the audit report, outlined other matters for management’s consideration that were discovered during the audit but did not rise to the level of audit findings. Among those concerns were the lack of sufficient cash flows to maintain the intended renovation and replacement fund for the arena and the absence of an independent analysis or competitive procurement before signing a 10-year extension of the management contract for the arena.

Auditor Harmon’s office is scheduled to present details on the audit, including additional observations related to LAA and ULAA, to members of the Capital Projects and Bond Oversight Committee at its June 20 meeting in Frankfort.

“The KFC Yum! Center is an important investment for the Commonwealth, the city of Louisville, and the University of Louisville. Yet, since the opening of the KFC Yum! Center the Louisville Arena Authority has faltered badly, and the financial position of ULAA has dramatically improved,” Auditor Harmon said. “The state has stepped up with a willingness to expand the TIF, but now it’s time for all parties involved to make the commitment necessary to put the arena on a sustainable path.”

The full audit is available for review at auditor.ky.gov.

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