

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER**

**SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Capital Region Development Authority
Hartford, Connecticut

We have audited the accompanying special-purpose statements of assets, liabilities and owner's equity of the XL Center, which is leased by the Capital Region Development Authority (the "Authority") and operated by Spectra by Comcast Spectacor, operating as Spectra Venue Management. ("Spectra"), as of June 30, 2017 and 2016, and the related special-purpose statements of revenues, expenses and changes in owner's equity and cash flows for the years then ended and the related notes to the special-purpose financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the agreed-upon accounting between the Authority and Spectra. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose 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 special-purpose 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 audits to obtain reasonable assurance about whether the special-purpose 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.

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and owner's equity of the XL Center, as of June 30, 2017 and 2016, and the revenues, expenses and changes in owner's equity and cash flows for the years then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements have been prepared on the basis of the financial reporting provisions agreed upon between the Authority and Spectra, as discussed in Note 1, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Capital Region Development Authority and Spectra, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mahoney Sabol + Company, LLP". The signature is written in a cursive, flowing style.

Glastonbury, Connecticut
September 29, 2017

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
STATEMENT OF ASSETS, LIABILITIES AND OWNER'S EQUITY
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
ASSETS		
Current assets:		
Cash	\$ 1,962,279	\$ 4,626,934
Receivables, net	525,604	739,787
Prepaid expenses	82,645	237,751
Due from Authority	55,412	50,795
Total assets	\$ 2,625,940	\$ 5,655,267
LIABILITIES AND OWNER'S EQUITY		
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,109,750	\$ 1,501,968
Accrued liabilities:		
Events	1,047,848	3,775,932
Other	600,787	698,670
Loans payable	-	200,000
Unearned contract revenue	287,671	245,147
Total liabilities	4,046,056	6,421,717
OWNER'S EQUITY	(1,420,116)	(766,450)
Total liabilities and owner's equity	\$ 2,625,940	\$ 5,655,267

The accompanying notes are an integral part of these special-purpose financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Event services	\$ 8,249,230	\$ 9,206,201
Ancillary services	4,925,950	5,621,764
Advertising	1,032,339	995,550
Suites and club membership fees	1,027,275	1,227,499
Building naming rights	460,000	450,000
Total revenues	<u>15,694,794</u>	<u>17,501,014</u>
OPERATING EXPENSES		
Event services	6,277,812	6,876,108
Ancillary services	3,181,508	3,861,677
Salaries	2,526,452	2,466,347
Utilities	1,787,804	1,725,734
Payroll taxes and benefits	787,340	758,797
Sales and marketing	666,534	672,128
Equipment rentals, repairs and maintenance	469,116	375,321
Management fees	369,775	366,840
Common area maintenance	315,000	312,000
Insurance	231,602	219,255
Professional fees	30,181	177,913
Other	705,336	674,830
Total operating expenses	<u>17,348,460</u>	<u>18,486,950</u>
Net loss	(1,653,666)	(985,936)
OWNER'S EQUITY, BEGINNING OF YEAR	(766,450)	(680,514)
CAPITAL CONTRIBUTIONS, NET		
Capital assets	(1,501,209)	(1,261,672)
Capital contributions - State	<u>1,501,209</u>	<u>1,261,672</u>
Total capital contributions, net	-	-
OPERATING CONTRIBUTIONS	<u>1,000,000</u>	<u>900,000</u>
OWNER'S EQUITY, END OF YEAR	<u>\$ (1,420,116)</u>	<u>\$ (766,450)</u>

The accompanying notes are an integral part of these special-purpose financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,653,666)	\$ (985,936)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	214,183	(212,196)
Prepaid expenses	155,106	(104,460)
Due from authority	(4,617)	285,447
Increase (decrease) in:		
Accounts payable	607,782	97,244
Accrued liabilities	(2,825,967)	1,696,174
Unearned contract revenue	42,524	16,997
Net cash provided by (used in) operating activities	<u>(3,464,655)</u>	<u>793,270</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating contributions	1,000,000	900,000
Repayment of loans, net	<u>(200,000)</u>	<u>(150,000)</u>
Net cash provided by non-capital financing activities	<u>800,000</u>	<u>750,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(1,501,209)	(1,261,672)
Capital contributions	<u>1,501,209</u>	<u>1,261,672</u>
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH	(2,664,655)	1,543,270
CASH, beginning of year	<u>4,626,934</u>	<u>3,083,664</u>
CASH, end of year	<u>\$ 1,962,279</u>	<u>\$ 4,626,934</u>

The accompanying notes are an integral part of these special-purpose financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Capital Region Development Authority (the "Authority") was established in 1998 under Title 32, Chapter 600 of the General Statutes of the State of Connecticut (the "Act"), as amended, and was created as a body politic and instrumentality of the State of Connecticut (the "State"). In 2012, the General Assembly renamed the Authority (the Capital Region Development Authority had formerly been called the Capital City Economic Development Authority) and expanded its powers to serve as a regional planning authority. The powers of the Authority are vested in its thirteen member Board of Directors appointed pursuant to C.G.S § 32-601. The XL Center is owned by the City of Hartford and is being leased to the Authority under a long-term operating lease arrangement. The Authority has contracted with Spectra by Comcast Spectacor (previously known as Global Spectrum, L.P.), operating as Spectra Venue Management, ("Spectra") to manage the XL Center operations.

The accompanying special-purpose financial statements are intended to only present those activities managed by Spectra relating to the events held at the XL Center. The accounts and activities of other operations of the Authority are not reflected in the accompanying special-purpose financial statements. Financial statements containing all activities of the Authority may be obtained from the Authority.

Nature of Operations

The XL Center is a 16,000 seat arena and is currently utilized by the University of Connecticut's ("UCONN") men's and women's basketball teams, the UCONN men's hockey team and the American Hockey League's Hartford Wolf Pack. In addition to these major sporting events, the arena also provides a venue for concerts and other public events. Additional goals of the XL Center are to broaden the base of the tourism effort and stimulate substantial surrounding economic development and corresponding increased tax revenues for the State.

Basis of Accounting

The accompanying special-purpose financial statements has been prepared to present the assets, liabilities, owner's equity, revenues, expenses, and cash flows of the XL Center in accordance with the basis of accounting agreed-upon between the Authority and Spectra. All assets and liabilities of the XL Center's operations have been presented in accordance with accounting principles generally accepted in the United States of America, except for capital assets, which have not been presented as assets. Capital assets and related capital contributions to fund the purchase of such assets, in addition to operating contributions, have been recorded as a component of owner's equity.

Use of Estimates

The preparation of the special-purpose financial statements in conformity with the basis of accounting referred to above requires management to make estimates and assumptions that affect the reported amounts and disclosures in the special-purpose financial statements. Actual results could differ from those estimates.

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Receivables

Receivables as of June 30, 2017 and 2016 consists of amounts due from customers in the amount of \$537,224 and \$609,109, respectively, for services provided and \$24,473 and \$130,678, respectively, in ticket sales held by a third-party ticketing company. Customers are generally granted credit without collateral. 21% and 34% of customer receivables, respectively, were due from two organizations as of June 30, 2017 and 2016. An allowance for doubtful accounts has been established as of June 30, 2017 for \$36,093.

Revenue Recognition

Revenue, including event and ancillary services, including concession, catering and novelties, is recognized upon completion of the event. Event services revenue is recognized net of the portion of ticket revenues earned by the event promoter.

Event Liabilities

Gross ticket sales received and all costs and other revenues generated prior to the related event are reported as an accrued event liability until completion of the event.

NOTE 2 – CASH DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the balance of cash deposits will not be able to be recovered. The cash attributed to the XL Center was deposited in a qualified public institution as defined by Connecticut General Statutes, which states that any bank holding public deposits must at all times, maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is great. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

The cash attributed to the XL Center represents only a portion of the Authority's total cash deposits and additional disclosures regarding custodial credit risk may be obtained from the Authority.

CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 – DUE FROM AUTHORITY

The Connecticut State Legislature approved \$1,000,000 and \$900,000 in funding for the operations of the XL Center for the years ended June 30, 2017 and 2016, respectively. The funding has been reported as operating contributions from the State and is included as a component of owner's equity. Funding from the State is received by the Authority and recorded as an operating contribution in the accompanying statements of revenues, expenses and changes in owner's equity in the year the funding has been approved. No amounts were due from the Authority as of June 30, 2017 and June 30, 2016.

The Connecticut State Legislature approved \$38.45 million in funding for improvements to the XL Center. Improvements include upgrades to the mechanical system, locker rooms and concourse, and garage, as well as aesthetic improvements, such as a new fan club area inside the arena and luxury seating in the lower bowl. The funding has been reported as capital contributions from the State and is included as a component of owner's equity. Funding from the State is received by the Authority and recorded as a capital contribution in the accompanying statements of revenues, expenses and changes in owner's equity in the year the capital outlay is incurred. As of June 30, 2017, the XL Center has recognized cumulative capital contributions from the State in the amount of \$35,152,769, leaving an available appropriation to be spent in future years of \$3,297,231. Amounts due from the Authority totaled \$55,412 and \$50,795 as of June 30, 2017 and 2016, respectively.

NOTE 4 – LOANS PAYABLE

During the year ended June 30, 2014, commencement of the XL Center operations by the Authority led to one-time expenses in the amount of \$1,351,363. Pursuant to the Authority's management agreement with Spectra, these expenses were funded by Spectra through a short-term financing arrangement. Interest is payable on amounts outstanding at rates ranging from 4.0% to 5.0%. The outstanding amount due to Spectra totaled \$200,000 as of June 30, 2016. During the year ended June 30, 2017, the remaining payable outstanding of \$200,000 was repaid in full.

NOTE 5 – OPERATING LEASE

The Authority has entered into a lease agreement with the City of Hartford. The term of the lease is for a period of ten years and includes two options to renew for periods of five years each. The lease agreement requires annual rent payments of \$3,000,000 for the first two years of the lease and \$2,600,000 each year for the remaining lease term, subject to the XL Center's legally available funds. For the years ended June 30, 2017 and 2016, no rent expense was recognized in the statement of revenue, expenses and changes in owner's equity due to a shortfall in legally available funds. The cumulative rent shortfall of \$9,165,000 under the lease is contingent upon the future operating performance of the XL Center. The Authority has determined that the payment of the rent shortfall of \$9,165,000 is not probable prior to the expiration of the payment contingency period. The Authority will review this determination annually and additional rent expense will be recognized in the period in which payment of such rent is deemed probable.

**CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 6 – MANAGEMENT AND RELATED AGREEMENTS

Venue Management

The Authority has entered into a management agreement with Spectra Venue Management (“Spectra”) (previously known as Global Spectrum L.P.). The term of the agreement expires on June 30, 2023 and can be terminated by the Authority in the event of default or upon a special termination event as defined in the agreement. The management agreement provides for a fixed management fee of \$30,000 per month for the first year of the contract. The fixed management fee increases each year by the percentage increase in the Consumer Price Index. The management agreement also provides for an incentive management fee equal to 12% of the XL Center’s net operating income from \$100,000 to \$650,000 plus 20% of the XL Center’s net operating income in excess of \$650,000. Total fees earned by Spectra for each of the years ended June 30, 2017 and 2016 totaled \$369,775 and \$366,840, respectively. No incentive management fees were earned during the years ended June 30, 2017 and 2016.

In addition, the agreement between Spectra and the Authority provides for the payment of marketing commissions based on 10% of gross revenues from the sale of commercial advertising rights at the XL Center. Commissions earned by Spectra for these services for the years ended June 30, 2017 and 2016 totaled approximately \$263,000 and \$290,000, respectively.

Pursuant to the management agreement between Spectra and the Authority, Spectra was required to contribute \$1 million toward capital improvements to the XL Center. Capital contributions made by Spectra totaled \$1 million. In accordance with the agreement, each contribution is to be amortized on a straight-line basis beginning on the date each contribution was made and ending on June 30, 2023. In the event that the management agreement is terminated prior to the expiration of the agreement, the Authority is required to repay the unamortized portion of the capital contributions within thirty days of the termination date. As of June 30, 2017, the unamortized portion subject to repayment totaled approximately \$600,000 .

Food Services & Hospitality

Spectra has entered into an agreement with Spectra Food Services & Hospitality (“Food Services”) (previously known as Ovations Food Services), a subsidiary of Comcast. The agreement expires on June 30, 2023 and provides for a base fee of \$150,000 for the first year of the contract. The base fee increases each year by the percentage increase in the Consumer Price Index. In addition, the agreement provides for an incentive fee of 8% of net concession revenues above a mutually agreed upon benchmark agreed to by the Authority and Spectra. Total fees earned by Food Services for the years ended June 30, 2017 and 2016 totaled \$172,504 and \$229,898, respectively, and include incentive fees earned of \$18,659 and \$77,198, respectively.

CAPITAL REGION DEVELOPMENT AUTHORITY
XL CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 – MANAGEMENT AND RELATED AGREEMENTS (Continued)

Food Services & Hospitality (Continued)

Pursuant to the management agreement between Spectra and the Authority, Food Services was required to contribute \$1 million toward capital improvements to the XL Center and the Stadium at Rentschler Field, which is owned by the State of Connecticut and also managed by Spectra. Capital contributions made by Food Services totaled \$536,450. In accordance with the agreement, each contribution is to be amortized on a straight-line basis beginning on the date each contribution was made and ending on June 30, 2023. In the event that the management agreement is terminated prior to the expiration of the agreement, the Authority is required to repay the unamortized portion of the capital contributions within thirty days of the termination date. As of June 30, 2017, the unamortized portion subject to repayment totaled approximately \$322,000.

Ticketing & Fan Engagement

Spectra Venue Management has entered into an agreement with Spectra Ticketing & Fan Engagement (“Spectra Ticketing”, previously known as New Era Ticketing), a subsidiary of Comcast. During June 2017, Spectra Ticketing & Fan Engagement was acquired by an unaffiliated third party. The parties continue to operate in accordance with terms of the original agreement. The agreement expires on June 30, 2023 and provides for the payment of a per ticket processing fee. Ticketing, transaction and other fees processed by Spectra Ticketing for the year ended June 30, 2017 and 2016 totaled approximately \$690,000 and \$657,000, respectively.

Pursuant to the management agreement between Spectra and the Authority, Spectra Ticketing was required to contribute \$750,000 toward capital improvements. Capital contributions made by from Spectra Ticketing totaled \$750,000. In accordance with the agreement, each contribution is to be amortized on a straight-line basis beginning on the date each contribution was made and ending on June 30, 2023. In the event that the management agreement is terminated prior to the expiration of the agreement, the Authority is required to repay the unamortized portion of the capital contributions within thirty days of the termination date. As of June 30, 2017, the unamortized portion subject to repayment totaled approximately \$450,000.

MSG Holdings

Global has entered into an agreement with MSG Holdings, L.P. (“MSG”). The agreement expires on June 30, 2018 and secures the use of the XL Center by the Hartford Wolf Pack for all of its home regular-season and playoff games during the term of the agreement. The agreement requires an affiliation fee to be paid annually to MSG. The fees for the years ended June 30, 2017 and 2016 totaled \$1,550,000 and \$1,500,000, respectively and has been included as an event services expense in the statement of revenues, expenses and changes owner’s equity. Affiliation fees to be paid for the remaining term of the agreement are \$1,600,000 for the year ended June 30, 2018.