

# Agenda

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## Joint Meeting of Board of Directors & Committees

**Friday | December 7, 2018**

**7:30 a.m. | Breakfast**

**8:00 a.m. | Business Meeting**

**Banquet Rooms | Van Andel Arena®**

**130 West Fulton | Grand Rapids | MI**

- |    |  |                |
|----|--|----------------|
| 1. | Call to Order and Chairman's Comments  | Steve Heacock  |
| 2. | Minutes of November 2, 2018  | Action         |
| 3. | Grand Rapids Symphony Update   | Peter Perez    |
| 4. | Committee Reports  |                |
|    | A. Operations Committee  |                |
|    | i. Experience Grand Rapids Report  | Information    |
|    | B. Finance Committee   |                |
|    | i. SMG Special Purpose Financial Statements as of and for the<br>Years Ended June 30, 2018 and 2017 – Rehmann Robson   | Action         |
|    | ii. Communication from Independent Auditors Concerning<br>SMG Special Purpose Financial Statements                     | Information    |
|    | iii. Financial Statements and Supplementary Information for the<br>Years Ended June 30, 2018 and 2017 – Rehmann Robson | Action         |
|    | iv. Audit Wrap-up Letter for the Year Ended June 30, 2018  | Information    |
|    | v. Consolidated Financial Report, for the Year Ended<br>June 30, 2018, Recap - Budget to Actual                        | Information    |
|    | vi. Acceptance of October 2018 Consolidated Financial Statements   | Action         |
|    | vii. SMG – Oct. 2018 Van Andel Arena® and DeVos Place® Financials  | Information    |
| 5. | HVS Feasibility Study of Proposed Convention Center Hotel  | Tom Hazinski   |
| 6. | SMG Report and Facilities Calendars  | Rich MacKeigan |
| 7. | Public Comment   |                |
| 8. | Adjournment  |                |

**Next CAA Meeting Date: Friday, January 4, 2019**

**MINUTES OF THE GRAND RAPIDS-KENT COUNTY  
CONVENTION/ARENA AUTHORITY  
MEETING OF BOARD OF DIRECTORS  
300 MONROE AVENUE, NW | GRAND RAPIDS, MI  
Friday, November 2, 2018**

Attendance

Members Present: Rosalynn Bliss  
Lew Chamberlin  
Birgit Klohs  
Richard Winn

Members Absent: Steve Heacock  
Charlie Secchia  
Floyd Wilson, Jr.

Staff/Others:	Tom Bennett	Experience Grand Rapids
	Wayman Britt	Kent County
	Tim Gortsema	Grand Rapids Griffins
	Chris Machuta	SMG
	Eddie Tadlock	SMG
	Brad Thomas	Progressive AE
	John Van Houten	Progressive AE
	Susan Waddell	CAA
	Mark Washington	City of Grand Rapids
	Richard Wendt	Dickinson Wright
	Robert White	CAA

**1. Call to Order**

Vice Chair, Birgit Klohs, called the meeting to order at 7:55 a.m., in the absence of Chair Steve Heacock. Secretary/Treasurer, Richard Winn, recorded the meeting minutes.

**2. Minutes of Prior Meeting**

*Motion by Mr. Chamberlin, support by Ms. Bliss, to approve the October 5, 2018, Minutes. Motion carried.*

**3. Committee Reports**

**A. Operations Committee**

**i. Experience Grand Rapids Report**

Mr. Bennett provided an overview of the CVB's recent bookings, sales activities, site visits, marketing efforts, and major bid presentations. The Smith Travel Research Star Report revealed that September was a strong month, with five groups booked for the convention center. These groups include GFS, Autowares, S. Abraham & Sons, Acton Institute, and Amway World Crowns IBO. The Experience Grand Rapids sales team was busy with site visits, FAM trips, sales calls, conferences, and sales missions to different markets. Site visit groups included the Center for Medicare and Medicaid Services, Michigan Chapter for American College of Physicians and American Society of Internal Medicine, Conference

Direct, National Conference for Catechetical Leadership, Mid-American Health Organization, National Conference of Black Churches, and the Kellogg Company.

**B. Finance Committee**

i. Acceptance of September 2018 Consolidated Financial Statement

*Motion: Mr. Winn, supported by Mr. Chamberlin, moved to accept the September 2018 Consolidated Financial Statements, together with two budget amendments to recognize \$39,513 for hotel study and \$1,058,189.59 for capital project carryover. Motion carried.*

ii. SMG September 2018 Van Andel Arena® and DeVos Place® Financial Statements

The SMG financial statements were included in the agenda packet as information items.

**4. Auto Parking System Periodic Reporting**

Mr. White presented a quarterly report regarding the City/County utilization of discounted DeVos Place® monthly parking passes.

**5. First Quarter Capital Roll**

The first quarter capital roll was included as an information item.

**6. SMG Report and Facilities Calendars**

Mr. Machuta presented the calendar of events occurring at the facilities.

**7. Public Comment**

None.

**8. Adjournment**

The meeting adjourned at 8:50 a.m. The next CAA Board meeting is Friday, December 7, 2018.

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Richard A. Winn, Recording Secretary

DeVos Place,  
as Managed by SMG

Years Ended  
June 30, 2018 and  
2017

Special-Purpose  
Financial  
Statements

# DEVOS PLACE, AS MANAGED BY SMG

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**INDEPENDENT AUDITORS' REPORT**

September 26, 2018

DeVos Place, as Managed by SMG  
Grand Rapids, Michigan**Report on the Financial Statements**

We have audited the accompanying special-purpose financial statements of *DeVos Place, as Managed by SMG* ("SMG-DeVos Place"), which comprise the special-purpose statements of assets, liabilities, and amount due Operator arising from activities managed by SMG as of June 30, 2018 and 2017, and the special-purpose statements of operating revenues, operating expenses, and incentive management fee arising from activities managed by SMG; special-purpose statements of changes in amount due Operator arising from activities managed by SMG; and special-purpose statements of operating cash flows arising from activities managed by SMG for the years then ended, and the related notes to the special-purpose financial statements (collectively, the "Special-Purpose Financial Statements").

***Management's Responsibility for the Special-Purpose Financial Statements***

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the basis of presentation referred to in Note 1 to the special-purpose financial statements; this includes determining that the basis of presentation is an acceptable basis for the preparation of the special-purpose financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

***Independent Auditors' 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 special-purpose financial statements. The procedures selected depend on the auditors' 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 special-purpose 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 special-purpose 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 amount due Operator of SMG-DeVos Place as of June 30, 2018 and 2017, and its operating revenues, operating expenses, changes in amount due Operator, and operating cash flows for the years then ended in accordance with the basis of presentation described in Note 1 to the special-purpose financial statements.

*Basis of Presentation*

We draw attention to Note 1 to the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared pursuant to the Management Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America, and are not intended to be a complete presentation of SMG-DeVos Place's financial position, results of operations and cash flows. Our opinion is not modified with respect to this matter.

*Restriction on Use*

Our report is intended solely for the information and use of the management of SMG-DeVos Place and officials of the Grand Rapids-Kent County Convention/Arena Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman LLC*

## DEVOS PLACE, AS MANAGED BY SMG

### Special-Purpose Statements of Assets, Liabilities, and Amount

Due Operator Arising from Activities Managed by SMG

	June 30,	
	2018	2017
Assets (all current)		
Cash and cash equivalents:		
Operating	\$ 171,647	\$ 1,022,283
Ticket sales escrow	1,285,508	2,594,445
Accounts receivable, net of allowance of \$31,523 and \$31,522 in 2018 and 2017, respectively	990,960	1,272,714
Prepaid expenses	155,481	176,755
Total assets (all current)	<u>\$ 2,603,596</u>	<u>\$ 5,066,197</u>
Liabilities (all current)		
Accounts payable	\$ 143,259	\$ 384,450
Accrued expenses	631,460	512,093
Unearned revenue:		
Advance ticket sales	1,285,508	2,594,445
Advance deposits	472,010	327,568
Other unearned revenue	121,634	182,994
Total liabilities (all current)	2,653,871	4,001,550
Amount due Operator (deficit)	<u>(50,275)</u>	<u>1,064,647</u>
Total liabilities and amount due Operator	<u>\$ 2,603,596</u>	<u>\$ 5,066,197</u>

See notes to special-purpose financial statements



## DEVOS PLACE, AS MANAGED BY SMG

### Special-Purpose Statements of Operating Revenues, Operating Expenses, and Incentive Management Fee Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Operating revenues		
Events	\$ 3,576,809	\$ 3,196,369
Ancillary revenues, net:		
Food and beverage	1,291,449	1,150,283
Decorating	309,888	345,531
Electrical	350,538	438,839
Equipment rental	634,641	570,952
Other (includes \$7,391 in interest income)	179,068	170,008
	<u>2,765,584</u>	<u>2,675,613</u>
Other operating revenues	<u>850,546</u>	<u>619,257</u>
Total operating revenues	<u>7,192,939</u>	<u>6,491,239</u>
Operating expenses		
Personnel	2,640,440	2,387,793
Utilities	1,763,621	1,749,739
Supplies and expenses	295,952	224,461
Repairs and maintenance	833,001	533,024
General and administrative	<u>1,446,974</u>	<u>1,295,629</u>
Total operating expenses	<u>6,979,988</u>	<u>6,190,646</u>
Operating revenues over operating expenses before incentive management fee	212,951	300,593
Incentive management fee	<u>218,923</u>	<u>168,420</u>
Operating revenues over (under) operating expenses and incentive management fee	<u>\$ (5,972)</u>	<u>\$ 132,173</u>

See notes to special-purpose financial statements

## DEVOS PLACE, AS MANAGED BY SMG

### Special-Purpose Statements of Changes in Amount Due Operator Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Amount due Operator, beginning of year	\$ 1,064,647	\$ 695,910
Excess of operating revenues over (under) operating expenses and incentive management fee	(5,972)	132,173
Contributions received from Operator	1,783,663	1,791,765
Amounts paid to Operator	<u>(2,892,613)</u>	<u>(1,555,201)</u>
Amount due Operator, end of year	<u>\$ (50,275)</u>	<u>\$ 1,064,647</u>

See notes to special-purpose financial statements

## DEVOS PLACE, AS MANAGED BY SMG

### Special-Purpose Statements of Operating Cash Flows

Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities		
Operating revenues over (under) operating expenses and incentive management fees	\$ (5,972)	\$ 132,173
Changes in assets and liabilities:		
Accounts receivable	281,754	(365,835)
Prepaid expenses	21,274	(50,301)
Accounts payable	(241,191)	275,703
Accrued expenses	119,367	(208,282)
Advance deposits	144,442	28,797
Other unearned revenue	(61,360)	85,029
Net cash provided by (used in) operating activities	258,314	(102,716)
Cash flows from financing activities		
Contributions received from Operator	1,783,663	1,791,765
Amounts paid to Operator	(2,892,613)	(1,555,201)
Net cash provided by (used in) financing activities	(1,108,950)	236,564
Net change in operating cash	(850,636)	133,848
Operating cash, beginning of year	1,022,283	888,435
Operating cash, end of year	\$ 171,647	\$ 1,022,283

See notes to special-purpose financial statements

## NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

# DEVOS PLACE, AS MANAGED BY SMG

## Notes to Special-Purpose Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DeVos Place provides space for conventions, trade shows, concerts, meetings, banquets, and other performances. DeVos Place is operated by the Grand Rapids-Kent County Convention/Arena Authority (the "Operator").

The Operator has entered into a Management Agreement with SMG to manage the operations of DeVos Place. The activities of DeVos Place that are managed by SMG are referred to herein as SMG-DeVos Place.

The Operator, from time to time, provides funding to SMG-DeVos Place to pay the obligations of DeVos Place when due. The Operator is contractually obligated to fund all liabilities and expenses of DeVos Place.

#### *Measurement Focus and Basis of Accounting*

The accompanying special-purpose financial statements were prepared to present the assets, liabilities, amount due Operator, operating revenues, operating expenses, and operating cash flows of DeVos Place arising from the management activities of SMG and are not intended to be a complete presentation of DeVos Place's financial position, results of operations, and cash flows. Such special-purpose financial statements have been prepared on the accrual basis of accounting and include transactions managed by SMG in accordance with the Management Agreement, measured in conformity with accounting principles generally accepted in the United States of America. Accordingly, the special-purpose financial statements do not include property and equipment, noncontractual repair expenditures, and related-fund equity associated with DeVos Place or certain other activities of the Operator related to DeVos Place that are not part of the activities managed by SMG. Payroll and related expenses are for employees hired by SMG to manage DeVos Place under the Management Agreement. These employees are not employees of the Operator.

#### *Assets and Liabilities*

#### *Cash and Cash Equivalents*

SMG-DeVos Place considers cash and all highly liquid investments with a maturity of three months or less to be cash equivalents for the special-purpose statements of cash flows. Amounts in the ticket sales escrow account represent ticket sales proceeds for events that have not yet occurred. For the protection of the ticket holders, SMG and the Operator, such amounts are required to be held in a separate account to provide resources for payments to performers and promoters and for payment of operating expenses.

#### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

#### *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## DEVOS PLACE, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

#### *Unearned Revenues*

SMG-DeVos Place incurs a liability for all cash received from ticket sales in advance of an event; a corresponding amount is held in a separate escrow account. Revenues are not recognized until the related event occurs. Unearned revenue is comprised primarily of advanced billings, which are recognized as revenues on a straight-line basis over the term of the related contracts. Also included are ticket rebates received from the ticket agent prior to an event, which are not recognized as revenue until the event occurs.

#### *Event Revenues*

SMG-DeVos Place records event revenue upon the completion of the event. Accordingly, amounts received for advance ticket sales or deposits by promoters are recorded as liabilities until that time. Costs incurred prior to an event are recorded as prepaid expenses and charged to expense upon completion of the event. Event revenues are reported net of related event expenses of \$3,584,887 and \$3,259,011 for the years ended June 30, 2018 and 2017, respectively.

#### *Ancillary Revenues*

All concession and catering, decorating, electrical, and audiovisual revenues are recognized when earned. Ancillary revenues are a contractually determined percentage of gross receipts collected by the vendor for each event.

#### *Other Operating Revenues*

Other operating revenues are comprised of interest income, nonevent equipment rental income, ticket rebates, and other miscellaneous items.

#### *Noncontractual Repairs*

At times, SMG-DeVos Place incurs costs funded by the Operator's capital projects budget, which is separate and distinct from the operating funds provided by the Operator to DeVos Place. The Operator ultimately decides which expenses will be capitalized or expensed. These costs are excluded from operating expenses in the accompanying special-purpose statements of operating revenues and operating expenses.

#### *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## DEVOS PLACE, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

#### 2. MANAGEMENT AGREEMENT AND FEES

SMG and the Operator have a Management Agreement (the "Agreement") that has an effective date of July 1, 2011, originally expiring on June 30, 2014, with two two-year renewal periods extending through June 30, 2018. The Agreement provides for both an annual base and incentive management fee. The annual base management fee was set at \$162,500 for the first year of the agreement and is adjusted upward annually by the percentage change in the Consumer Price Index (not to exceed 3% in any one year). A decrease in the Consumer Price Index will not have an effect on the management fee. A new agreement was signed that is effective July 1, 2018, with an expiration of June 30, 2028 with the option to extend through June 30, 2038.

The incentive fee is based on the combined results of operations of SMG-DeVos Place and SMG-Van Andel Arena compared to a combined operating revenue benchmark of \$9,100,000, which escalates by \$100,000 annually for the remainder of the term, as defined in the Agreement. The maximum incentive to be paid in any fiscal year is equal to 100% of the base management fee. To qualify for the incentive fee, combined operating revenues of SMG-Van Andel Arena and SMG-DeVos Place must exceed combined operating expenses before incentive management fee by an established benchmark, as follows:

	Year Ended June 30,	
	2018	2017
Excess of operating revenues over operating expenses, as defined, SMG-Van Andel Arena	\$ 2,054,408	\$ 2,657,247
Excess of operating revenues over operating expenses, as defined, SMG-DeVos Place	212,951	300,593
Total	<u>\$ 2,267,359</u>	<u>\$ 2,957,840</u>
Incentive benchmark	\$ 750,000	\$ 750,000
Benchmark met?	Yes	Yes

In the event the combined operations of SMG-Van Andel Arena and SMG-DeVos Place exceed the established operating revenue benchmark, and the operating revenues exceed operating expenses by the benchmark discussed above, the incentive fee is determined based on the below calculation. The amount of the incentive fee paid based on the calculation below is determined by the amount by which combined operating revenues exceed combined operating expense in accordance with the threshold levels set forth below:

Amount by Which Operating Revenues Exceed Operating Expenses	Percentage of Incentive Fee Payable to SMG
\$700,000 or more and less than \$750,000	75%
\$750,000 or more	100%

## DEVOS PLACE, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

The following calculation is only performed when combined operating revenues of SMG-Van Andel Arena and SMG-DeVos Place exceed combined operating expenses by the established benchmark. A schedule of the base and incentive management fees for the years ended June 30, 2018 and 2017, is as follows:

	Year Ended June 30,	
	2018	2017
SMG-DeVos Place base management fee, included in general and administrative expense (A)	\$ 176,440	\$ 173,661
Total operating revenues - SMG-Van Andel Arena	\$ 6,767,205	\$ 7,215,161
Total operating revenues - SMG-DeVos Place	7,192,939	6,491,239
	<u>13,960,144</u>	<u>13,706,400</u>
Revenue benchmark - SMG-Van Andel Arena	5,150,000	5,100,000
Revenue benchmark - SMG-DeVos Place	4,550,000	4,500,000
	<u>9,700,000</u>	<u>9,600,000</u>
Revenues in excess of benchmark	\$ 4,260,144	\$ 4,106,400
Computation of incentive fee resulting from revenues in excess of revenue benchmark:		
25% of the first \$500,000, collectively	\$ 125,000	\$ 125,000
30% of the amount in excess of \$500,000, collectively, up to base fee of \$352,880 and \$347,322, respectively	227,880	222,322
	<u>352,880</u>	<u>347,322</u>
Percent payable	100%	100%
Total incentive fee payable	\$ 352,880	\$ 347,322
Incentive fee allocated to SMG-Van Andel Arena	\$ 133,957	\$ 178,902
Incentive fee allocated to SMG-DeVos Place (B)	218,923	168,420
Total incentive fee	<u>\$ 352,880</u>	<u>\$ 347,322</u>
Total management fees - SMG-DeVos Place (A + B)	<u>\$ 395,363</u>	<u>\$ 342,081</u>

The incentive fee shall be allocated between facilities by the percentage of each facility's contribution to the excess revenue above benchmark. The base fee is contingent upon the Operator maintaining the SMG-Van Andel Arena concessions agreement with SMG Food and Beverage LLC. If that agreement were to be terminated, the base management fee would increase \$25,000 for each managed facility, adjusted annually by the percentage change in the Consumer Price Index from the base year.



## DEVOS PLACE, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

#### 3. RETIREMENT PLAN

Employees at SMG-DeVos Place may elect to participate in the SMG Retirement and Savings Plan, a 401(k) defined contribution plan covering SMG employees who have completed one year of employment and 1,000 hours of service. SMG-DeVos Place makes matching contributions equal to 67% of each participants contribution up to a maximum of 5% of the employee's eligible compensation. Discretionary contributions may also be made on a monthly basis for active participants. SMG-DeVos Place made \$24,568 and \$20,646 in matching contributions for the years ended June 30, 2018 and 2017, respectively.

#### 4. RELATED PARTY TRANSACTIONS

In addition to the operations of SMG-DeVos Place, SMG personnel also manage the operations of SMG-Van Andel Arena. The two facilities share certain expenses, such as payroll, employee fringe benefits, and insurance, resulting in frequent billings and payments between the two facilities. The two facilities also share a box office, resulting in frequent billings and payments between the two facilities for ticket sales. Accounts receivable includes \$10,339 and \$313,344 due from SMG-Van Andel Arena as of June 30, 2018 and 2017, respectively. Accounts payable includes \$41,577 and \$4,554 due to SMG-Van Andel Arena as of June 30, 2018 and 2017, respectively.

During the years ended June 30, 2018 and 2017, SMG-DeVos Place made payments of \$36,855 and \$54,581, respectively, to SMG-Food and Beverage LLC, a related party to SMG, for catering services.

#### 5. CONTINGENCIES

SMG-DeVos Place is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the entity.

#### 6. RISK MANAGEMENT

SMG-DeVos Place is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2018 and 2017, SMG-DeVos Place carried commercial insurance to cover all risks of losses. SMG-DeVos Place has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three years.



Van Andel Arena,  
as Managed by SMG

Years Ended  
June 30, 2018 and  
2017

Special-Purpose  
Financial  
Statements

# VAN ANDEL ARENA, AS MANAGED BY SMG

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**INDEPENDENT AUDITORS' REPORT**

September 26, 2018

Van Andel Arena, as Managed by SMG  
Grand Rapids, Michigan**Report on the Financial Statements**

We have audited the accompanying special-purpose financial statements of *Van Andel Arena, as Managed by SMG* ("SMG-Van Andel Arena"), which comprise the special-purpose statements of assets, liabilities, and amount due Operator arising from activities managed by SMG as of June 30, 2018 and 2017, and the special-purpose statements of operating revenues, operating expenses and incentive management fee arising from activities managed by SMG; special-purpose statements of changes in amount due Operator arising from activities managed by SMG; and special-purpose statements of operating cash flows arising from activities managed by SMG for the years then ended, and the related notes to the special-purpose financial statements (collectively, the "Special-Purpose Financial Statements").

***Management's Responsibility for the Special-Purpose Financial Statements***

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the basis of presentation referred to in Note 1 to the special-purpose financial statements; this includes determining that the basis of presentation is an acceptable basis for the preparation of the special-purpose financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

***Independent Auditors' 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 special-purpose financial statements. The procedures selected depend on the auditors' 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 special-purpose 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 special-purpose 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 amount due Operator of SMG-Van Andel Arena as of June 30, 2018 and 2017, and its operating revenues, operating expenses, changes in amount due Operator, and operating cash flows for the years then ended in accordance with the basis of presentation described in Note 1 to the special-purpose financial statements.

*Basis of Presentation*

We draw attention to Note 1 to the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared pursuant to the Management Agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America, and are not intended to be a complete presentation of SMG-Van Andel Arena's financial position, results of operations and cash flows. Our opinion is not modified with respect to this matter.

*Restriction on Use*

Our report is intended solely for the information and use of the management of SMG-Van Andel Arena and officials of the Grand Rapids-Kent County Convention/Arena Authority and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohorn LLC*

## VAN ANDEL ARENA, AS MANAGED BY SMG

### Special-Purpose Statements of Assets, Liabilities, and Amount

Due Operator Arising from Activities Managed by SMG

	June 30,	
	2018	2017
Assets (all current)		
Cash and cash equivalents:		
Operating	\$ -	\$ 1,877,950
Ticket sales escrow	8,032,102	4,153,061
Accounts receivable	1,704,575	1,390,392
Prepaid expenses	83,487	98,422
	<u>9,820,164</u>	<u>7,519,825</u>
Total assets (all current)	\$ 9,820,164	\$ 7,519,825
Liabilities (all current)		
Accounts payable	\$ 359,615	\$ 1,907,184
Accrued expenses	558,241	847,730
Unearned revenue:		
Advance ticket sales	8,032,102	4,153,061
Advance deposits	34,925	14,925
Other unearned revenue	1,275,414	1,171,065
	<u>10,260,297</u>	<u>8,093,965</u>
Total liabilities (all current)	10,260,297	8,093,965
Amount due Operator (deficit)	<u>(440,133)</u>	<u>(574,140)</u>
Total liabilities and amount due Operator	\$ 9,820,164	\$ 7,519,825

See notes to special-purpose financial statements

## VAN ANDEL ARENA, AS MANAGED BY SMG

### Special-Purpose Statements of Operating Revenues, Operating Expenses, and Incentive Management Fee Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Operating revenues		
Events	\$ 1,352,722	\$ 1,751,734
Ancillary revenues, net:		
Food and beverage	1,801,311	1,877,314
Novelties	138,770	139,044
Other	11,981	21,357
	<u>1,952,062</u>	<u>2,037,715</u>
Other operating revenues:		
Premium seating	1,701,060	1,734,564
Advertising income	642,518	651,614
Other (includes \$19,266 in interest income)	1,118,843	1,039,534
	<u>3,462,421</u>	<u>3,425,712</u>
Total operating revenues	<u>6,767,205</u>	<u>7,215,161</u>
Operating expenses		
Personnel	1,818,100	1,798,850
Utilities	935,150	1,012,298
Supplies and expenses	285,494	218,242
Repairs and maintenance	388,248	374,466
General and administrative	1,285,805	1,154,058
Total operating expenses	<u>4,712,797</u>	<u>4,557,914</u>
Operating revenues over operating expenses before incentive management fee	2,054,408	2,657,247
Incentive management fee	<u>133,957</u>	<u>178,902</u>
Operating revenues over operating expenses and incentive management fee	<u>\$ 1,920,451</u>	<u>\$ 2,478,345</u>

See notes to special-purpose financial statements

## VAN ANDEL ARENA, AS MANAGED BY SMG

### Special-Purpose Statements of Changes in Amount Due Operator Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Amount due Operator, beginning of year	\$ (574,140)	\$ (847,566)
Excess of operating revenues over operating expenses and incentive management fee	1,920,451	2,478,345
Contributions received from Operator	1,021,168	1,028,338
Amounts paid to Operator	<u>(2,807,612)</u>	<u>(3,233,257)</u>
Amount due Operator, end of year	<u>\$ (440,133)</u>	<u>\$ (574,140)</u>

See notes to special-purpose financial statements



## VAN ANDEL ARENA, AS MANAGED BY SMG

### Special-Purpose Statements of Operating Cash Flows

Arising from Activities Managed by SMG

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities		
Operating revenues over operating expenses	\$ 1,920,451	\$ 2,478,345
Changes in assets and liabilities:		
Accounts receivable	(314,183)	(336,104)
Prepaid expenses	14,935	(24,430)
Accounts payable	(1,547,569)	1,204,031
Accrued expenses	(289,489)	113,130
Advance deposits	20,000	(18,500)
Unearned revenue	104,349	(315,711)
Net cash provided by (used in) operating activities	<u>(91,506)</u>	<u>3,100,761</u>
Cash flows from financing activities		
Contributions received from Operator	1,021,168	1,028,338
Amounts paid to Operator	<u>(2,807,612)</u>	<u>(3,233,257)</u>
Net cash used in financing activities	<u>(1,786,444)</u>	<u>(2,204,919)</u>
Net change in operating cash	(1,877,950)	895,842
Operating cash, beginning of year	<u>1,877,950</u>	<u>982,108</u>
Operating cash, end of year	<u>\$ -</u>	<u>\$ 1,877,950</u>

See notes to special-purpose financial statements

## NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS

# VAN ANDEL ARENA, AS MANAGED BY SMG

## Notes to Special-Purpose Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Van Andel Arena (the "Arena") provides space for family shows, concerts, sporting events, meetings, and other performances. The Arena is operated by the Grand Rapids-Kent County Convention/Arena Authority (the "Operator").

The Operator has entered into a Management Agreement with SMG to manage the operations of the Arena. The activities of the Arena that are managed by SMG are referred to herein as SMG-Van Andel Arena.

The Operator, from time to time, provides funding to SMG-Van Andel Arena to pay the obligations of the Arena when due. The Operator is contractually obligated to fund all liabilities and expenses of the Arena.

#### *Measurement Focus and Basis of Accounting*

The accompanying special-purpose financial statements were prepared to present the assets, liabilities, amount due Operator, operating revenues, operating expenses, and operating cash flows of the Arena arising from the management activities of SMG and are not intended to be a complete presentation of the Arena's financial position, results of operations, and cash flows. Such special-purpose financial statements have been prepared on the accrual basis of accounting and include transactions managed by SMG in accordance with the Management Agreement, measured in conformity with accounting principles generally accepted in the United States of America. Accordingly, the special-purpose financial statements do not include property and equipment, noncontractual repair expenditures, and related-fund equity associated with the Arena or certain other activities of the Operator related to the Arena that are not part of the activities managed by SMG. Payroll and related expenses are for employees hired by SMG to manage the Arena under the Management Agreement. These employees are not employees of the Operator.

#### *Assets and Liabilities*

##### *Cash and Cash Equivalents*

SMG-Van Andel Arena considers cash and all highly liquid investments with a maturity of three months or less to be cash equivalents for the special-purpose statements of cash flows. Amounts in the ticket sales escrow account represent ticket sales proceeds for events that have not yet occurred. For the protection of the ticket holders, SMG and the Operator, such amounts are required to be held in a separate account to provide resources for payments to performers and promoters and for payment of operating expenses.

##### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amount is considered uncollectible at June 30, 2018 and 2017, respectively.

##### *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

## VAN ANDEL ARENA, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

#### *Unearned Revenues*

SMG-Van Andel Arena incurs a liability for all cash received from ticket sales in advance of an event; a corresponding amount is held in a separate escrow account. Revenues are not recognized until the related event occurs. Unearned revenue is comprised primarily of advanced billings and collections for luxury boxes and advertising contracts, which are recognized as revenues on a straight-line basis over the term of the related contracts. Also included are ticket rebates received from the ticket agent prior to an event, which are not recognized as revenue until the event occurs.

#### *Event Revenues*

SMG-Van Andel Arena records event revenue upon the completion of the event. Accordingly, amounts received for advance ticket sales or deposits by promoters are recorded as liabilities until that time. Costs incurred prior to an event are recorded as prepaid expenses and charged to expense upon completion of the event. Event revenues are reported net of related event expenses of \$3,795,551 and \$3,604,615 for the years ended June 30, 2018 and 2017, respectively.

#### *Ancillary Revenues*

All concession and catering, decorating, electrical, and audiovisual revenues are recognized when earned. Ancillary revenues are a contractually determined percentage of gross receipts collected by the vendor for each event.

#### *Other Operating Revenues*

Other operating revenues include revenues associated with luxury seating, advertising, ticket rebates, interest income, and other miscellaneous items.

#### *Noncontractual Repairs*

From time to time, SMG-Van Andel Arena incurs costs funded by the Operator's capital projects budget, which is separate and distinct from the operating funds provided by the Operator to the Arena. The Operator ultimately decides which expenses will be capitalized or expensed. These costs are excluded from operating expenses in the accompanying special-purpose statements.

#### *Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# VAN ANDEL ARENA, AS MANAGED BY SMG

## Notes to Special-Purpose Financial Statements

### 2. MANAGEMENT AGREEMENT AND FEES

SMG and the Operator have a Management Agreement (the "Agreement") that has an effective date of July 1, 2011, originally expiring on June 30, 2014, with two two-year renewal periods extending through June 30, 2018. The Agreement provides for both an annual base and incentive management fee. The annual base management fee was set at \$162,500 for the first year of the agreement and is adjusted upward annually by the percentage change in the Consumer Price Index (not to exceed 3% in any one year). A decrease in the Consumer Price Index will not have an effect on the management fee. A new agreement was signed that is effective July 1, 2018, with an expiration of June 30, 2028 with the option to extend through June 30, 2038.

The incentive fee is based on the combined results of operations of SMG-DeVos Place and SMG-Van Andel Arena compared to a combined operating revenue benchmark of \$9,100,000, which escalates by \$100,000 annually for the remainder of the term, as defined in the Agreement. The maximum incentive to be paid in any fiscal year is equal to 100% of the base management fee. To qualify for the incentive fee, combined operating revenues of SMG-Van Andel Arena and SMG-DeVos Place must exceed combined operating expenses before management incentive fees by an established benchmark, as follows:

	Year Ended June 30,	
	2018	2017
Excess of operating revenues over operating expenses, as defined, SMG-Van Andel Arena	\$ 2,054,408	\$ 2,657,247
Excess of operating revenues over operating expenses, as defined, SMG-DeVos Place	212,951	300,593
Total	<u>\$ 2,267,359</u>	<u>\$ 2,957,840</u>
Incentive benchmark	\$ 750,000	\$ 750,000
Benchmark met?	Yes	Yes

In the event the combined operations of SMG-Van Andel Arena and SMG-DeVos Place exceed the established operating revenue benchmark, and the operating revenues exceed operating expenses by the benchmark discussed above, the incentive fee is determined based on the below calculation. The amount of the incentive fee paid based on the calculation below is determined by the amount by which combined operating revenues exceed combined operating expense in accordance with the threshold levels set forth below:

Amount by Which Operating Revenues Exceed Operating Expenses	Percentage of Incentive Fee Payable to SMG
\$700,000 or more and less than \$750,000	75%
\$750,000 or more	100%

## VAN ANDEL ARENA, AS MANAGED BY SMG

### Notes to Special-Purpose Financial Statements

The following calculation is only performed when combined operating revenues of SMG-Van Andel Arena and SMG-DeVos Place exceed combined operating expenses by the established benchmark. A schedule of the base and incentive management fees for the years ended June 30, 2018 and 2017, is as follows:

	Year Ended June 30,	
	2018	2017
SMG-Van Andel base management fee, included in general and administrative expense (A)	\$ 176,440	\$ 173,661
Total operating revenues - SMG-Van Andel Arena	\$ 6,767,205	\$ 7,215,161
Total operating revenues - SMG-DeVos Place	7,192,939	6,491,239
	<u>13,960,144</u>	<u>13,706,400</u>
Revenue benchmark - SMG-Van Andel Arena	5,150,000	5,100,000
Revenue benchmark - SMG-DeVos Place	4,550,000	4,500,000
	<u>9,700,000</u>	<u>9,600,000</u>
Revenues in excess of benchmark	\$ 4,260,144	\$ 4,106,400
Computation of incentive fee resulting from revenues in excess of revenue benchmark:		
25% of the first \$500,000, collectively	\$ 125,000	\$ 125,000
30% of the amount in excess of \$500,000, collectively, up to base fee of \$352,880 and \$347,322, respectively	227,880	222,322
	<u>352,880</u>	<u>347,322</u>
Percent payable	100%	100%
Total incentive fee payable	\$ 352,880	\$ 347,322
Incentive fee allocated to SMG-Van Andel Arena (B)	\$ 133,957	\$ 178,902
Incentive fee allocated to SMG-DeVos Place	218,923	168,420
Total incentive fee	<u>\$ 352,880</u>	<u>\$ 347,322</u>
Total management fees - SMG-Van Andel Arena (A + B)	<u>\$ 310,397</u>	<u>\$ 352,563</u>

The incentive fee shall be allocated between facilities by the percentage of each facility's contribution to the excess revenue above benchmark. The base fee is contingent upon the Operator maintaining the SMG-Van Andel Arena concessions agreement with SMG Food and Beverage LLC. If that agreement were to be terminated, the base management fee would increase \$25,000 for each managed facility, adjusted annually by the percentage change in the Consumer Price Index from the base year.

# VAN ANDEL ARENA, AS MANAGED BY SMG

## Notes to Special-Purpose Financial Statements

### 3. RETIREMENT PLAN

Employees at SMG-Van Andel Arena may elect to participate in the SMG Retirement and Savings Plan, a 401(k) defined contribution plan covering SMG employees who have completed one year of employment and 1,000 hours of service. SMG-Van Andel Arena makes matching contributions equal to 67% of each participants contribution up to a maximum of 5% of the employee's eligible compensation. Discretionary contributions may also be made on a monthly basis for active participants. SMG-Van Andel Arena made \$15,046 and \$13,232 in matching contributions for the years ended June 30, 2018 and 2017, respectively.

### 4. RELATED PARTY TRANSACTIONS

In addition to the operations of SMG-Van Andel Arena, SMG personnel also manage the operations of SMG-DeVos Place. The two facilities share certain expenses, such as payroll, employee fringe benefits, and insurance, resulting in frequent billings and payments between the two facilities. The two facilities also share a box office, resulting in frequent billings and payments between the two facilities for ticket sales. Accounts receivable includes \$41,577 and \$4,554 due from SMG-DeVos Place as of June 30, 2018 and 2017, respectively. Accounts payable includes \$10,339 and \$313,344 payable to SMG-DeVos Place as of June 30, 2018 and 2017, respectively.

On July 1, 2006, the Operator entered into a concessions agreement for the Arena with SMG-Food and Beverage LLC, a related party to SMG. Accounts receivable includes \$131,375 and \$287,675 from SMG-Food and Beverage LLC, as of June 30, 2018 and 2017, respectively. Accounts payable includes \$987 and \$1,763 to SMG-Food and Beverage LLC, as of June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, SMG-Van Andel received payments of \$3,148,607 and \$3,174,550, respectively, from SMG-Food and Beverage LLC which represents commission on sales. During the years ended June 30, 2018 and 2017, SMG-Van Andel made payments of \$175,755 and \$220,302, respectively, to SMG-Food and Beverage LLC.

### 5. CONTINGENCIES

SMG-Van Andel Arena is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the entity.

### 6. RISK MANAGEMENT

SMG-Van Andel Arena is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended June 30, 2018 and 2017, SMG-Van Andel Arena carried commercial insurance to cover all risks of losses. SMG-Van Andel Arena has had no settled claims resulting from these risks that exceeded their commercial coverage in the past four years.

■ ■ ■ ■ ■

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

September 26, 2018

To Management of  
DeVos Place and Van Andel Arena, as Managed by SMG  
Grand Rapids, Michigan

We have audited the special-purpose financial statements of *DeVos Place ("SMG-DeVos Place")* and *Van Andel Arena ("SMG-Van Andel Arena")*, as managed by SMG as of and for the years ended June 30, 2018 and 2017, and have issued our reports thereon dated September 26, 2018. Professional standards require that we advise you of the following matters relating to our audits.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated August 15, 2018, our responsibility, as described by professional standards, is to form and express opinions about whether the special-purpose financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with the Management Agreement with the Grand Rapids-Kent County Convention/Arena Authority (the "Authority"). Our audit of the special-purpose financial statements does not relieve you of your responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audits, we considered the internal control of SMG-DeVos Place and SMG-Van Andel Arena solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audits that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Planned Scope and Timing of the Audit**

We performed the audits according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 6, 2018.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.



## Qualitative Aspects of the Authority's Significant Accounting Practices

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SMG-DeVos Place and SMG-Van Andel Arena is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- The allocation of shared costs between SMG-DeVos Place and SMG-Van Andel Arena is based on related time expended, services performed or other applicable activities and data.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the special-purpose financial statements.

## Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audits.

## Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audits, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures.

During our audit, we identified the need for a material audit adjustment (which was reviewed and approved by management) to record accrued payroll for SMG-DeVos Place. This adjustment had been initially prepared by management, but was inadvertently not posted prior to our audit fieldwork.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the special-purpose financial statements or the auditors' reports. No such disagreements arose during the course of the audits.

#### Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment A to this letter.

#### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

#### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with SMG-DeVos Place and SMG-Van Andel Arena, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the auditors.

This information is intended solely for the use of the governing body and management of SMG-DeVos Place, SMG-Van Andel Arena and the Grand Rapids-Kent County Convention/Arena Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

## SMG-DEVOS PLACE & SMG-VAN ANDEL ARENA

### ■ Attachment A - Management Representations For the June 30, 2018 Audit

The following pages contain the written representations that we requested from management.



September 26, 2018

Rehmann Robson  
2330 East Paris Ave., SE  
Grand Rapids, MI 49546

Convention  
Arena  
Authority

This representation letter is provided in connection with your audits of the special-purpose financial statements of *DeVos Place* ("SMG-DeVos Place") and *Van Andel Arena* ("SMG-Van Andel Arena"), as managed by SMG as of and for the years ended June 30, 2018 and 2017, and the related notes to the special-purpose financial statements present fairly, in all material respects, the assets, liabilities, and amounts due/from Operator, and the respective operating revenues, operating expenses, and changes in amounts due/from Operator, and operating cash flows, in conformity with the Management Agreement with the Grand Rapids-Kent County Convention/Arena Authority (the "Authority").

Steven Heacock,  
Chairman  
Hon. Rosalynn Bli  
Lew Chamberlin  
Birgit M. Klohs  
Charlie Secchia  
Floyd Wilson, Jr.  
Richard A. Winn

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of September 26, 2018:

#### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 15, 2018, for the preparation and fair presentation of the special-purpose financial statements in accordance with the Management Agreement with the Authority. We have reviewed, approved, and taken responsibility for special-purpose financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the special-purpose financial statements.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



Van Andel Arena®  
130 West Fulton  
Grand Rapids, MI 49503-2601  
616.742.6600

DEVOSPLACE

DeVos Place®  
303 Monroe Ave. NW  
Grand Rapids, MI 49503-2233  
616.742.6500



6. Related party relationships and transactions have been appropriately accounted for and disclosed.
7. All events subsequent to the date of the special-purpose financial statements have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed.

**Information Provided**

9. We have provided you with:
  - a. Access to all information that is relevant to the preparation and fair presentation of the special-purpose financial statements, such as records, documentation, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.
10. All transactions have been recorded in the accounting records and are reflected in the special-purpose financial statements.
11. We have disclosed to you the results of our assessment of the risk that the special-purpose financial statements may be materially misstated as a result of fraud.
12. We have no knowledge of any fraud or suspected fraud that affects the Company and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others when the fraud could have a material effect on the special-purpose financial statements.
13. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entities' special-purpose financial statements communicated by employees, former employees, vendors, regulators, or others.
14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing special-purpose financial statements.
15. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the special-purpose financial statements and we have not consulted legal counsel concerning litigation or claims.
16. We have disclosed to you the identity of the entities' related parties and all the related party relationships and transactions of which we are aware.
17. We have disclosed to you all guarantees, whether written or oral, under which we are contingently liable.

18. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts.
19. There are no:
- a. Violations or possible violations of laws or regulations, or provisions of contracts and grant agreements that could have a direct and material effect on the financial statements.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed.
  - c. Other liabilities or gain or contingencies that are required to be accrued or disclosed.
20. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor have any assets or future revenues been pledged as collateral, except as disclosed to you.
21. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the special-purpose financial statements in the event of noncompliance.
22. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.



---

Chris Machuta, Assistant General Manager



---

Richard Mackeigan, Regional General Manager

# Grand Rapids - Kent County Convention/Arena Authority

Years Ended  
June 30, 2018 and  
2017

Financial  
Statements

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

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**INDEPENDENT AUDITORS' REPORT**

November 26, 2018

Members of the Grand Rapids-Kent County  
Convention/Arena Authority Board  
Grand Rapids, Michigan

We have audited the accompanying financial statements of the *Grand Rapids-Kent County Convention/Arena Authority* (the "Authority"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

***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.

***Independent Auditors' Responsibility***

Our responsibility is to an express 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 auditors' 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Grand Rapids-Kent County Convention/Arena Authority as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Rehmann Lohman LLC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Management's Discussion and Analysis

These financial statements are the responsibility of the Grand Rapids-Kent County Convention/Arena Authority. We offer readers this narrative overview and analysis for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

• Total net position	\$ 25,488,532
• Change in total net position	100,806
• Capital assets, net	1,784,742
• Change in net capital assets	(191,531)

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements are comprised of the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows and the notes to the financial statements.

- The *statements of net position* present information on all of the Authority's assets and liabilities, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The *statements of revenues, expenses and changes in net position* present information showing how the Authority's net position changed during each fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The *statements of cash flows* presents information showing in greater detail how the Authority received and disbursed cash.
- The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The Authority's financial statements consist of a single enterprise fund (a proprietary fund type), as the Authority intends to recover all or a significant portion of its costs through user fees and charges (known as "business-type activities").

*Other Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information includes this management's discussion and analysis.

The *statement of revenues, expenses and change in net position - budget and actual* is presented as supplementary information and includes information on how the Authority performed in relation to the Board-adopted budget.

## GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

### Management's Discussion and Analysis

#### Financial Analysis

The Authority's assets exceeded its liabilities by \$25,488,532 and \$25,387,726 for the years ended June 30, 2018 and 2017, respectively. A summary of the Authority's net position for the current fiscal year and two years prior is presented below.

Statements of Net Position			
June 30,			
	2018	2017	2016
<b>Assets</b>			
Current and other assets	\$ 37,256,015	\$ 35,521,363	\$ 33,060,113
Capital assets, net	1,784,742	1,976,273	1,684,745
	<u>39,040,757</u>	<u>37,497,636</u>	<u>34,744,858</u>
<b>Liabilities</b>			
Other liabilities	<u>13,552,225</u>	<u>12,109,910</u>	<u>10,829,897</u>
<b>Net position</b>			
Investment in capital assets	1,784,742	1,976,273	1,684,745
Unrestricted	<u>23,703,790</u>	<u>23,411,453</u>	<u>22,230,216</u>
<b>Total net position</b>	<u>\$ 25,488,532</u>	<u>\$ 25,387,726</u>	<u>\$ 23,914,961</u>

A portion of the Authority's net position (7.0% and 7.8% in 2018 and 2017, respectively), reflects its net investment in capital assets (e.g. equipment and vehicles). The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining portion, unrestricted net position represents resources that may be used at the Authority's discretion, but often have limitations based on policy action.

The following condensed financial information reflects how the Authority's net position changed during the current fiscal year and the two years prior:

Statements of Net Position			
Year Ended June 30,			
	2018	2017	2016
Operating revenues	\$ 15,569,822	\$ 15,202,485	\$ 14,620,074
Operating expenses	<u>16,003,676</u>	<u>14,193,769</u>	<u>13,765,758</u>
Operating income (loss)	(433,854)	1,008,716	854,316
Nonoperating revenues	<u>676,440</u>	<u>496,144</u>	<u>334,461</u>
Income before transfers out	242,586	1,504,860	1,188,777
Transfer of constructed assets	<u>(141,780)</u>	<u>(32,095)</u>	<u>(472,298)</u>
Change in net position	100,806	1,472,765	716,479
Net position, beginning of year	<u>25,387,726</u>	<u>23,914,961</u>	<u>23,198,482</u>
Net position, end of year	<u>\$ 25,488,532</u>	<u>\$ 25,387,726</u>	<u>\$ 23,914,961</u>

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Management's Discussion and Analysis

### *Operating Revenues*

Operating revenues of the Authority are generated by the Authority's DeVos Place and Van Andel Arena. Management of each of these facilities is provided by a third party company, SMG, with whom the Authority has a management agreement. Operating revenues include event revenues as well as ancillary revenues related to luxury seating, advertising and commissions on vendor sales of food, beverage and novelties. The increase in 2018 operating revenues is a direct result of the continued popularity of both venues combined with the number and types of events held therein. While attendance and number of events for the facilities combined increased slightly, per capita spending and per event settlements decreased from 2017 to 2018.

The increase in 2017 operating revenues is a direct result of the continued popularity of both venues combined with the number and types of events held therein. While attendance for the facilities combined remained relatively constant, the number of events increased moderately (only seven different year over year) and per capita spending and per event settlements increased from 2016 to 2017.

### *Operating Expenses*

Operating expenses include costs associated with the daily operation and continual upgrade and maintenance of DeVos Place and Van Andel Arena, as well as administrative costs related to the overall operating of the Authority. Generally, administrative costs relate to insurance, personnel services, and professional services. In 2018, operating expenses increased at a higher rate than operating revenues primarily due to the increased capital replacement and repair needs of the facilities as they age. These expenses are expected to increase at an even higher rate in the next two years due to planned major capital replacement projects for dock doors and roofs, and then level off to levels consistent with more typical operating needs in the future.

In 2017, operating expenses increased at approximately the same rate as operating revenues, excepting depreciation. Depreciation expense increased due to a number of factors, the most pertinent related to security camera systems and parking equipment that became outdated in fiscal year 2017 for technology changes. These systems were completely replaced during fiscal year 2017 and additional depreciation was taken on the replaced assets.

### *Nonoperating Revenues*

Nonoperating revenues result primarily from a parking lease (Area #2), an SMG food and beverage contribution (completed in fiscal year 2016) and investment income. As cash is generated by operations, the Authority gauges future cash flow needs and invests excess cash as available to maximize return and value for the Authority. In 2018, investment returns increased by about 62% reflecting similar increases in the Federal funds rate. Additionally, due to the increasing popularity of the downtown area and an almost doubling of the related parking rates effective September 2017, especially south of the Arena, daily and event parking revenues continue to increase at the Arena Area #2 lot, increasing from approximately \$314,000 in 2017 to approximately \$367,000 in 2018.

In 2017, investment returns increased by about 50% reflecting similar increases in the Federal funds rate. In 2016, investment returns improved, but very slowly as the underlying investments are placed in US obligations carrying lower rates reflective of their short term nature. Additionally, due to the increasing popularity of the downtown area an almost doubling of the related parking rates, especially south of the Arena, daily and event parking revenues continue to increase at the Arena Area #2 lot, increasing from approximately \$192,000 in 2016 to approximately \$314,000 in 2017.

## GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

### Management's Discussion and Analysis

#### *Transfer of Constructed Assets*

Bonds issued by the City-County Building Authority ("CCBA") and the City of Grand Rapids Downtown Development Authority ("DDA") are collateralized by assets and construction expenses associated with DeVos Place Convention Center and Van Andel Arena, respectively. During fiscal years 2018 and 2017, construction expenses of approximately \$142,000 and \$32,000, respectively, were transferred to the City-County Building Authority and the Downtown Development Authority. When the bonds issued by the City-County Building Authority have been retired, title to both the Arena and DeVos Place will be conveyed to the Authority.

#### Capital Assets and Debt Administration

**Capital Assets.** At June 30, 2018 and 2017, the Authority had invested \$1,784,272 and \$1,976,273, respectively, net of accumulated depreciation, in capital assets (see the table below). Additional information regarding the Authority's capital assets can be found in Note 4 to the financial statements.

	Capital Assets (Net of Depreciation) Year Ended June 30,		
	2018	2017	2016
Equipment	<u>\$ 1,784,742</u>	<u>\$ 1,976,273</u>	<u>\$ 1,684,745</u>

The facilities managed by the Authority were constructed with bonds issued by the CCBA and the DDA. When the bonds have been retired, title to both the Arena and DeVos Place will be conveyed to the Authority.

**Debt Administration.** The Authority had no long-term debt as of June 30, 2018, 2017 or 2016.

#### Economic Condition and Outlook

Management believes that the Grand Rapids-Kent County Convention/Arena Authority is in good condition both administratively and financially. This report covers the seventeenth and eighteenth years of operations. The Authority's operations and finance committees continue to monitor policies and practices governing facility rates, booking preferences and quality of service. Consolidated operating revenues at DeVos Place and Van Andel Arena continue to exceed booking expenses (including large-scale repair and replacement projects) on an annual basis. Long-term booking activity, enhanced by the services of the Grand Rapids-Kent County Convention and Visitor's Bureau, continues to draw commitments for convention center activity, which is now booking through calendar year 2023.

The Authority's facilities include a 12,000+ seat capacity Van Andel Arena, a 2,400 seat DeVos Performance Hall, a 685 parking space facility below the convention center complex, a 160,000 square foot full-service exhibit hall, related meeting rooms offering over 24,000 square feet of additional space, as well as a 40,000 square foot ballroom.

The fiscal year 2019 (beginning July 1, 2018) budget forecasts operating revenues of \$14.9 million with operating expenses (before depreciation) of \$12.9 million. Debt service obligations related to Van Andel Arena and DeVos Place Convention Center are being financed by Grand Rapids Downtown Development Authority tax increment revenues and Kent County lodging excise tax revenues.

#### Requests for Information

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenue it earns. Questions about this report or requests for additional financial information should be directed to the Grand Rapids-Kent County Convention/Arena Authority's Administrative Manager at 303 Monroe Avenue NW, Grand Rapids, MI 49503.

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## BASIC FINANCIAL STATEMENTS

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Statements of Net Position

	June 30,	
	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,613,313	\$ 9,723,946
Investments	24,730,096	22,947,055
Accounts receivable, net	2,673,640	2,575,187
Prepaid expenses	238,966	275,175
Total current assets	<u>37,256,015</u>	<u>35,521,363</u>
Noncurrent assets:		
Capital assets being depreciated, net	<u>1,784,742</u>	<u>1,976,273</u>
<b>Total assets</b>	<u>39,040,757</u>	<u>37,497,636</u>
<b>Liabilities (all current)</b>		
Accounts payable and accrued liabilities	643,552	2,133,374
Accrued expenses	1,604,455	1,532,477
Advance ticket sales	9,317,610	6,747,507
Advance deposits	506,935	342,493
Unearned revenue	<u>1,479,673</u>	<u>1,354,059</u>
<b>Total liabilities (all current)</b>	<u>13,552,225</u>	<u>12,109,910</u>
<b>Net position</b>		
Investment in capital assets	1,784,742	1,976,273
Unrestricted	<u>23,703,790</u>	<u>23,411,453</u>
<b>Total net position</b>	<u>\$ 25,488,532</u>	<u>\$ 25,387,726</u>

The accompanying notes are an integral part of these basic financial statements.

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2018	2017
Operating revenues		
Charges for services - facilities	\$ 15,569,822	\$ 15,202,485
Operating expenses		
Personnel services	4,599,551	4,316,423
Utilities	2,696,859	2,769,793
Supplies and other expenses	3,162,687	2,212,058
Contractual services	3,803,018	3,442,310
Depreciation	488,495	480,780
Repairs and maintenance	1,166,963	910,690
Professional services	86,103	61,715
Total operating expenses	16,003,676	14,193,769
Operating income (loss)	(433,854)	1,008,716
Nonoperating revenues		
Federal grants	-	5,056
Interest revenue	309,466	176,908
Other revenue	366,974	314,180
Total nonoperating revenues	676,440	496,144
Income before transfers out	242,586	1,504,860
Transfer of constructed assets	(141,780)	(32,095)
Change in net position	100,806	1,472,765
Net position, beginning of year	25,387,726	23,914,961
Net position, end of year	\$ 25,488,532	\$ 25,387,726

The accompanying notes are an integral part of these basic financial statements.

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
Cash flows from operating activities		
Cash received from facility operations	\$ 16,700,133	\$ 15,507,906
Cash payments to employees	(4,610,179)	(4,266,989)
Cash payments for goods and services	(10,655,242)	(9,186,188)
Net cash provided by operating activities	<u>1,434,712</u>	<u>2,054,729</u>
Cash flows from capital and related financing activities		
Acquisition/construction of capital assets	(296,964)	(772,308)
Acquisition/construction of transferred assets	(141,780)	(32,095)
Other receipts	<u>366,974</u>	<u>319,236</u>
Net cash used in capital and related financing activities	<u>(71,770)</u>	<u>(485,167)</u>
Cash flows from investing activities		
Interest and dividends received	309,466	176,908
Proceeds from sale of investments	4,200,000	3,650,000
Purchases of investments	<u>(5,983,041)</u>	<u>(4,865,366)</u>
Net cash used in investing activities	<u>(1,473,575)</u>	<u>(1,038,458)</u>
Net change in cash and cash equivalents	(110,633)	531,104
Cash and cash equivalents, beginning of year	<u>9,723,946</u>	<u>9,192,842</u>
Cash and cash equivalents, end of year	<u>\$ 9,613,313</u>	<u>\$ 9,723,946</u>

continued...

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (433,854)	\$ 1,008,716
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	488,495	480,780
Change in operating assets and liabilities:		
Accounts receivables, net	(98,453)	(640,049)
Prepaid expenses	36,209	(74,731)
Accounts payable and accrued liabilities	(1,489,822)	1,362,575
Accrued expenses	71,978	(94,583)
Advance ticket sales	2,570,103	232,406
Advance deposits	164,442	10,297
Unearned revenue	125,614	(230,682)
Net cash provided by operating activities	<u>\$ 1,434,712</u>	<u>\$ 2,054,729</u>

concluded

The accompanying notes are an integral part of these basic financial statements.

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## NOTES TO FINANCIAL STATEMENTS

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Grand Rapids - Kent County Convention/Arena Authority (the "Authority") was created by the City of Grand Rapids (the "City") and the County of Kent (the "County"), under the provisions of Act 203 of the Public Acts of Michigan of 1999. The Authority was established for the purpose of acquiring, constructing, improving, enlarging, renewing, replacing, repairing, financing, refinancing, equipping and operating convention facilities (including all or part of, or any combination of, a convention hall, auditorium, arena, meeting rooms, exhibition area and related adjacent public areas, together with appurtenant property including parking lots and structures) and real property on which they are located.

The Authority includes the operations of DeVos Place which provides space for conventions, concerts, meetings and other performances. Capital assets of DeVos Place were transferred to the City-County Building Authority (the "CCBA") where they are pledged until the related bonds are retired in 2031. At that time, ownership of these capital assets will be transferred to the Authority.

The Authority also includes the operations of the Van Andel Arena (the "Arena") which provides space for conventions, concerts, sporting events, meetings and other performances. The Grand Rapids Downtown Development Authority (the "DDA") maintains ownership of certain capital assets until the CCBA bonds are retired in 2031 according to the terms of the operating agreement signed by the CCBA, DDA and the Authority. At that time, ownership of these capital assets will be transferred to the Authority.

The accounting and reporting policies of the Authority conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Following is a summary of the significant policies:

#### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Authority is a special-purpose entity that uses proprietary fund reporting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. The principal operating revenues of the Authority's proprietary funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Authority uses the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for facility rentals, sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Notes to Financial Statements

### Assets, Liabilities and Net Position

#### *Cash and Cash Equivalents*

The Authority considers cash and all highly liquid investments with a maturity of three months or less to be cash equivalents for the statements of cash flows.

#### *Investments*

State statutes authorize governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

The Authority participates in the Kent County Investment Pool (the "Pool") which is managed by the County Treasurer. Investments underlying the County External Investment Pool consist primarily of short-term certificates of deposit, which are carried at cost plus accrued interest, and U.S. treasuries and agencies, which are carried at fair value. Investment income earned as a result of cash pooling is allocated to participating governments. Positions in external investment pools are not required to be categorized within the fair value hierarchy.

#### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

#### *Prepaid Expenses*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

#### *Capital Assets*

Capital assets, which are limited to certain building improvements and equipment, are stated at cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life of three or more years. The facilities managed by the Authority were constructed with bonds issued by the CCBA and the DDA. When the bonds have been retired, title to both the Arena and DeVos Place will be conveyed to the Authority.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the asset constructed.

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Notes to Financial Statements

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and structures	1-34
Equipment	3-10

### *Compensated Absences*

Employees are credited with 20 days of vacation each calendar year, which cannot be carried over. Accrued compensated absences totaled \$5,365 and \$4,558 at June 30, 2018 and 2017, respectively.

### *Revenues*

The Authority records facilities revenue upon completion of the event at DeVos Place or the Arena. Accordingly, amounts received for advance ticket sales or deposits are recorded as unearned revenue until that time. Costs incurred prior to an event are recorded as prepaid expenses and charged to expense upon completion of the event. In accordance with the SMG facility management agreement, certain direct event expenses billed to facility customers are netted against the related event revenue that they generate. Event revenues are reported net of related event expenses of \$7,380,438 and \$6,863,626 for the years ended June 30, 2018 and 2017, respectively.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the statement of net position follows:

	June 30,	
	2018	2017
Statement of net position		
Cash and cash equivalents	\$ 9,613,313	\$ 9,723,946
Investments	24,730,096	22,947,055
Total	<u>\$ 34,343,409</u>	<u>\$ 32,671,001</u>
Deposits and investments		
Bank deposits - checking / savings accounts	\$ 9,613,313	\$ 9,723,946
Investments in the Kent County Investment Pool	24,730,096	22,947,055
Total	<u>\$ 34,343,409</u>	<u>\$ 32,671,001</u>

## GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

### Notes to Financial Statements

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. At June 30, 2018, \$8,962,412 of the Authority's bank balance of \$10,017,072 was exposed to custodial credit risk because it was uninsured and uncollateralized. At June 30, 2017, \$9,509,936 of the Authority's bank balance of \$10,259,936 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Authority's investment policy does not specifically address this risk, although the Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. As of June 30, 2018 and 2017, the Authority's investments were not subject to custodial credit risk. Additional information regarding custodial credit risk can be found in the notes to the financial statements of the County's Comprehensive Annual Financial Report.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The County investment pool is not rated. Additional information regarding credit risk of the investments held in the County investment pool can be found in the notes to the financial statements of the County's Comprehensive Annual Financial Report.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's investments at June 30, 2018 and 2017 consisted entirely of balances in the Kent County Investment Pool. Such amounts are accessible to the Authority on demand. The Authority's investments do not have identifiable maturity dates. Additional information regarding interest rate risk can be found in the notes to the financial statements of the County's Comprehensive Annual Financial Report.

*Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above. Information on concentration of credit risk for the County Investment Pool can be found in the notes to the financial statements of the County's Comprehensive Annual Financial Report.

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Notes to Financial Statements

### 3. ACCOUNTS RECEIVABLES

Accounts receivables are comprised of the following:

	June 30,	
	2018	2017
Facility customers/events	\$ 2,009,249	\$ 1,763,527
Ancillary revenues	695,913	843,182
Allowance for uncollectible accounts	<u>(31,522)</u>	<u>(31,522)</u>
	<u>\$ 2,673,640</u>	<u>\$ 2,575,187</u>

### 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Buildings and structures	\$ 322,431	\$ -	\$ -	\$ -	\$ 322,431
Equipment	4,418,724	296,964	(481,740)	-	4,233,948
	<u>3,968,847</u>	<u>296,964</u>	<u>(481,740)</u>	<u>-</u>	<u>4,556,379</u>
Less accumulated depreciation for:					
Buildings and structures	(322,431)	-	-	-	(322,431)
Equipment	(2,442,451)	(488,495)	481,740	-	(2,449,206)
	<u>(2,284,102)</u>	<u>(488,495)</u>	<u>481,740</u>	<u>-</u>	<u>(2,771,637)</u>
Capital assets, net	<u>\$ 1,684,745</u>	<u>\$ (191,531)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,784,742</u>

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, being depreciated:					
Buildings and structures	\$ 322,431	\$ -	\$ -	\$ -	\$ 322,431
Equipment	3,646,416	772,308	-	-	4,418,724
	<u>3,968,847</u>	<u>772,308</u>	<u>-</u>	<u>-</u>	<u>4,741,155</u>
Less accumulated depreciation for:					
Buildings and structures	(322,431)	-	-	-	(322,431)
Equipment	(1,961,671)	(480,780)	-	-	(2,442,451)
	<u>(2,284,102)</u>	<u>(480,780)</u>	<u>-</u>	<u>-</u>	<u>(2,764,882)</u>
Capital assets, net	<u>\$ 1,684,745</u>	<u>\$ 291,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,976,273</u>

# GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

## Notes to Financial Statements

### 5. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, natural disasters, and employee injuries. The Authority carries commercial insurance for most risks of loss, including employee life, health and accident insurance. The Authority has not experienced settlements in excess of insurance coverage during the past three years.

### 6. COMMITMENTS AND CONTINGENCIES

The Authority has entered into an agreement with SMG to manage the operations of DeVos Place and the Arena through June 30, 2028.

The Authority pays SMG an annual base management fee and an incentive fee based on the results of operations of DeVos Place and the Arena. For the years ended June 30, 2018 and 2017, respectively, total management and incentive fees earned by SMG were approximately \$706,000 and \$695,000, respectively, and are recorded in contractual services expense.

The Authority is exposed to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position of the Authority.

### 7. DEFERRED COMPENSATION PLAN

During the year ended June 30, 2018, the Authority offered a deferred compensation plan in accordance with Sections 409 and 457 of the Internal Revenue Code (the "Plan") that will provide for payments upon completion of performance requirements as established by the Plan agreement. The Plan assets are held in trust for the exclusive benefit of participants and designated beneficiaries. As such, these amounts have not been included in the financial statements. During the year ended June 30, 2018, the Authority contributed \$200,000 and employees contributed \$0 to the Plan.

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## **SUPPLEMENTARY INFORMATION (UNAUDITED)**

## GRAND RAPIDS - KENT COUNTY CONVENTION/ARENA AUTHORITY

### Schedule of Revenues, Expenses and Changes in Net Position

Budget and Actual

For the Year Ended June 30, 2018

	Budget	Actual	Actual Over (Under) Budget
Operating revenues			
Facilities charges	\$ 13,646,496	\$ 15,569,822	\$ 1,923,326
Operating expenses			
Personnel services	4,604,794	4,599,551	(5,243)
Utilities	2,535,400	2,696,859	161,459
Supplies and expenses	621,683	3,162,687	2,541,004
Contractual services	3,522,615	3,803,018	280,403
Depreciation	-	488,495	488,495
Repairs and maintenance	940,289	1,166,963	226,674
Professional services	186,800	86,103	(100,697)
Total operating expenses	12,411,581	16,003,676	3,592,095
Operating income (loss)	1,234,915	(433,854)	(1,668,769)
Nonoperating revenues			
Interest revenue	286,250	309,466	23,216
Other revenue	384,987	366,974	(18,013)
Total nonoperating revenues	671,237	676,440	5,203
Income before transfers out	1,906,152	242,586	(1,663,566)
Transfer of constructed assets	(4,385,000)	(141,780)	4,243,220
Change in net position	(2,478,848)	100,806	2,579,654
Net position, beginning of year	25,387,726	25,387,726	-
Net position, end of year	\$ 22,908,878	\$ 25,488,532	\$ 2,579,654



**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

November 26, 2018

Honorable members of the Grand Rapids-Kent County  
County Convention/Arena Authority Board  
Grand Rapids, Michigan

We have audited the financial statements of the *Grand Rapids-Kent County Convention/Arena Authority* (the "Authority") as of and for the year ended June 30, 2018 and 2017, and have issued our report thereon dated November 26, 2018. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated August 13, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on October 22, 2018.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

## Qualitative Aspects of the Authority's Significant Accounting Practices

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

## Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment B to this letter.

### Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

### Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the Grand Rapids-Kent County Convention/Arena Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Rehmann Loborn LLC". The signature is written in a cursive, flowing style.

# GRAND RAPIDS-KENT COUNTY CONVENTION/ARENA AUTHORITY

## ■ Attachment A - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2018 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the Authority in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the Authority. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 83 ■ Certain Asset Retirement Obligations**

*Effective 06/15/2019 (your FY 2019)*

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the Authority.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2019 (your FY 2020)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods. Due to the number of specific factors to consider, we will continue to assess the degree to which this standard may impact the Authority.

### **GASB 87 ■ Leases**

*Effective 12/15/2020 (your FY 2021)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

### **GASB 88 ■ Certain Disclosures Related to Debt**

*Effective 06/15/2019 (your FY 2019)*

This standard provides guidance on note disclosures related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. We do not expect this standard to have any significant effect on the Authority.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2020 (your FY 2021)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the Authority.

## GRAND RAPIDS-KENT COUNTY CONVENTION/ARENA AUTHORITY

### ■ Attachment A - Upcoming Changes in Accounting Standards / Regulations For the June 30, 2018 Audit

#### GASB 90 ■ Majority Equity Interests *Effective 12/15/2019 (your FY 2020)*

This standard addresses situations in which a government acquires a majority of the equity interest in a legally separate organization, and whether such holdings should be reported as an investment or a component unit. We do not expect this standard to have any significant effect on the Authority.

■ ■ ■ ■ ■

## GRAND RAPIDS-KENT COUNTY CONVENTION/ARENA AUTHORITY

### Attachment B - Management Representations

For the June 30, 2018 Audit

The following pages contain the written representations that we requested from management.



November 26, 2018

Rehmann Robson  
2330 East Paris Ave. SE  
Grand Rapids, MI 49546

This representation letter is provided in connection with your audit of the financial statements of the **Grand Rapids - Kent County Convention/Arena Authority** (the "Authority"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Convention

Arena

Authority

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Steven Heacock,

Chairman

Hon. Rosalynn Bliss

Lew Chamberlin

Birgit M. Klohs

Charlie Secchia

Floyd Wilson, Jr.

Richard A. Winn

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 26, 2018:

#### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 13, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.



Van Andel Arena®  
130 West Fulton  
Grand Rapids, MI 49503-2601  
616.742.6600

DEVOS PLACE

DeVos Place®  
303 Monroe Ave. NW  
Grand Rapids, MI 49503-2233  
616.742.6500



7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
10. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
11. All funds and activities are properly classified.
12. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
13. All components of net position classifications have been properly reported.
14. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
15. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
16. All interfund and intra-entity transactions and balances have been properly classified and reported.
17. Deposit and investment risks have been properly and fully disclosed.
18. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
19. All required supplementary information is measured and presented within the prescribed guidelines.

#### **Information Provided**

20. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.



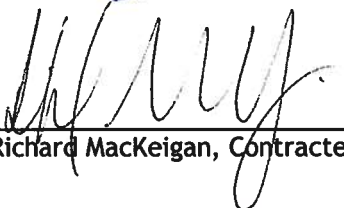
21. All transactions have been recorded in the accounting records and are reflected in the financial statements.
22. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
23. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
24. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
25. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
26. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
27. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
28. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
29. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
30. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
31. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
32. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
33. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
34. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources

of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

**Required Supplementary Information**

35. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

  
\_\_\_\_\_  
Robert White, Contracted Finance Director

  
\_\_\_\_\_  
Richard MacKeigan, Contracted Executive Director



## Memorandum

**To:** CAA Board  
CAA Finance Committee

**From:** Robert J. White

**Subject:** Consolidated Financial Report  
FY 2018 Recap – Budget to Actual

**Date:** November 16, 2018

---

The attached material summarizes the CAA administrative operating budget and consolidated income statement for fiscal years ended June 30, 2017-2018 and provides a comparison to the current fiscal year (FY 2019) budget.

Table D provides a summary of the consolidated budget by facility for the fiscal year ended June 30, 2019, along with actual results for FY 2017 and FY 2018. ***The FY 2018 budget, as adopted, forecasted a (\$2,478,848) draw on unrestricted fund balance. Upon completion of the fiscal year and release of the audited financial statements, it was determined that the Authority had generated a net income of \$292,337 applied to its unrestricted fund balance.*** Specific variances are summarized in the following manner:

### Van Andel Arena®

The original budgeted operating revenues, of \$5.9 million, forecast a (18.7%) decrease for this facility. At fiscal year end, the facility recorded \$6.8 million in actual operating revenues, representing a (6.2%) decrease from prior year. Concert activity has a significant impact on this operating account. The originally budgeted “net proceeds,” totaled \$1.4 million. Actual results totaled \$2.2 million.

### DeVos Place® Convention Center

The FY 2018 budget forecast a decline in operating revenues of (2.4%). Increased activity at DeVos Place® resulted in a gain of +10.8% from prior year. FY 2018 operating expenses were forecast to decrease by (0.6%) from prior year. Due to increased event load and the addition of several significant repair/maintenance projects, operating expenses increased by 13.1% over prior year. The result was an improvement in “net proceeds,” from a budgeted net of \$1.0 million to a margin of \$1.2 million.

### Administrative (Other)

#### Expenses:

- No significant change.

## **Capital Expenditures**

The FY 18 budget included a spending allowance of \$4,385,000. Six “in progress” project balances, totaling \$1.1 million, were carried over to the FY 19 capital budget. All other projects were completed at a net savings of \$.7 million.

All of these revenue/expenditure variances resulted in a positive variance from a forecasted \$2.5 million draw on unrestricted fund balance to a positive balance of \$.3 million for the Fiscal Year ended June 30, 2018.

The Fiscal Year 2019 budget forecasts a draw of \$4.3 million from unrestricted fund balance. This draw is required as a result of a capital spending appropriation of \$6.2 million. Current year cash flow will provide \$1.9 million for these capital projects, with the remaining \$4.3 million to be drawn from unrestricted fund balance.

## **Attachments:**

Table A – SMG Facilities Budget

Table B – Administrative-Operating/Capital Replacement Budget

Table B - Notes

Table B-1 – Detail of Expenditure Estimates

Table C – Consolidated Income Statement

Table D – Budget Summary by Facility/Other

Table E – Summary of Consolidated Income Statement – 10 Years

Table F – 15-Year Fund Balance Projection

Table G – Reconcile FY 18 – SMG Capital Spending

**Table A**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**SMG Facilities Budget**  
**Fiscal Years Ending June 30, 2017 - 2019**

	<b>FY 2017</b>		<b>FY 2018</b>		<b>FY 2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Actual</b>	<b>Budget</b>
Van Andel Arena					
Operating - Revenues	\$ 7,215,161	\$ 5,862,420	\$ 6,607,377	\$ 6,767,205	\$ 5,847,699
- Expenses - Facilities	(4,384,253)	(4,417,724)	(4,521,320)	(4,536,357)	(4,302,641)
- Management Fees	(173,661)	(177,134)	(176,440)	(176,440)	(176,440)
- <b>Incentive Fees</b>	<b>(178,902)</b>	<b>(101,780)</b>	<b>(125,069)</b>	<b>(133,957)</b>	<b>(92,319)</b>
Net Operating Income	<u>\$ 2,478,345</u>	<u>\$ 1,165,782</u>	<u>1,784,548</u>	<u>1,920,451</u>	<u>1,276,299</u>
DeVos Place					
Operating - Revenues	\$ 6,491,239	\$ 6,337,310	\$ 7,204,593	\$ 7,192,939	\$ 6,519,176
- Expenses - Facilities	(6,016,985)	(5,979,448)	(6,204,330)	(6,803,548)	(6,360,926)
- Management Fees	(173,661)	(177,134)	(176,440)	(176,440)	(176,440)
- <b>Incentive Fees</b>	<b>(168,420)</b>	<b>(252,488)</b>	<b>(227,811)</b>	<b>(218,923)</b>	<b>(260,561)</b>
Net Operating Income/(Loss)	<u>\$ 132,173</u>	<u>\$ (71,760)</u>	<u>\$ 596,012</u>	<u>\$ (5,972)</u>	<u>\$ (278,751)</u>
Net Available to CAA:					
Van Andel Arena	\$ 2,478,345	\$ 1,165,782	\$ 1,784,548	\$ 1,920,451	\$ 1,276,299
DeVos Place	132,173	(71,760)	596,012	(5,972)	(278,751)
	<u><b>\$ 2,610,518</b></u>	<u><b>\$ 1,094,022</b></u>	<u><b>\$ 2,380,560</b></u>	<u><b>\$ 1,914,479</b></u>	<u><b>\$ 997,548</b></u>

**Table B**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Administrative - Operating / Capital Replacement Budget**  
**FY 2017-2019**

	<b>FY2017</b>	<b>FY 2018</b>			<b>FY 2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Actual</b>	<b>Budget</b>
Revenues:					
Facility Operations	\$ 2,610,518	\$ 1,094,022	\$ 2,380,560	\$ 1,914,479	\$ 997,548
Utility Reimbursement	2,483,975	2,396,200	2,513,537	2,376,007	2,488,200
Transfers from SMG	5,094,493	3,490,222	4,894,097	4,290,486	3,485,748
DeVos Place Parking <sup>(1)</sup>	1,411,690	1,361,766	1,500,000	1,521,621	1,518,000
VanAndel Parking <sup>(1)</sup>	314,180	384,987	442,000	366,974	454,000
Interest <sup>(2)</sup>	176,908	286,250	258,000	282,816	392,000
Miscellaneous <sup>(7)</sup>	89,452	85,000	117,000	114,707	120,000
Total Revenues	7,086,723	5,608,225	7,211,097	6,576,604	5,969,748
Expenditures:					
Utilities <sup>(4)</sup>	2,483,975	2,396,200	2,513,537	2,376,007	2,488,200
Other Operating <sup>(5)</sup>	367,387	442,000	433,146	400,999	504,031
Administration/Other <sup>(6)</sup>	694,396	863,873	711,369	889,156	1,058,131
Facility Maintenance	1,555,325	-	-	2,179,361	-
Capital	804,403	4,385,000	3,728,838	438,744	6,188,190 <sup>(3)</sup>
Total Expenditures	5,905,486	8,087,073	7,386,890	6,284,267	10,238,552
Net Excess (Deficit)	\$ 1,181,237	\$ (2,478,848)	\$ (175,793)	\$ 292,337	\$ (4,268,804)

**Notes: See Following Pages**

**Table B-1**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Administrative - Operating / Capital Replacement Budget**  
**FY 2019 Budget**

**Notes:**

<sup>(1)</sup>DeVos Place Parking Rates:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u> ***
30 Minutes	\$ 1.50	\$ 1.50	\$ 1.50
Daily Maximum	15.00	15.00	15.00
Event	10.00 *	10.00	10.00
Monthly -Public	154.00	154.00	154.00
-Reserved Premium	58.00	58.00	58.00
-County/SMG (O+M)	41.00	60.77	66.25

Van Andel Arena Parking Rates:

Event	\$ 12.00 *	\$ 12.00	\$ 12.00
Non-Event Coin Unit	10.00 *	10.00	10.00
Monthly -Public	112.00 *	112.00	112.00

\* Rate Effective 9/1/2016.

\*\*\* No rate changes recommended for FY19. City-APS will begin rate study in fall.

<sup>(2)</sup> \$24.5 million (3/31/18 pool balance) in invested funds at 1.6%.

<sup>(3)</sup> FY 2019 Eligible Projects:

Van Andel Arena®

Aisle lighters to LED and programming to ION board	\$ 80,000
Compressor rebuilds (3) (phase 4 of 4)	90,000
New roof cost - phase 1 Main roof	1,000,000
South end concrete repair	70,000
Food and beverage	35,000
Suite refresher - furniture/paint/flooring (year 1 of 2)	200,000
Lockerroom upgrades (\$2M total project cost)	1,000,000
Landscaping	500,000
Savor - point-of-sale system	200,000
Arc Flash Hazard Analysis (FY 2018 Carry-Over)	2,750
Elevator Modernization Program (FY 2018 Carry-Over)	61,308

Total VAA 3,239,058

DeVos Place®

Loading dock/ramps/Ehall truss to LED lighting	60,000
Security office and lobby changes double doors and maglocks	30,000
Airwall fabric replacements (year 1 of 2)	70,000
Elevator modernization program	100,000
Camera additions	50,000
Snake light work and/or replacement	250,000
Theater bathrooms - Keeler all women's and men's on 1st floor sides	620,000
OSHA safety changes (year 1 of 2)	75,000
Performance hall LED lighting	100,000
Lyon Street landscaping (year 1 of 3)	200,000
Landscaping Trees (FY 2018 Carry-Over)	130,000
Arc Flash Hazard Analysis (FY 2018 Carry-Over)	27,225
New Michigan Street Dock Door (FY 2018 Carry-Over)	799,107
Welsh Lobby Exterior (FY 2018 Carry-Over)	37,800

Total DVP 2,549,132

Both Venues:

New computers	150,000
New phone systems	250,000
Total Both Venues	<u>400,000</u>

**Total FY 2019 Capital Budget** \$ 6,188,190

**Table B-1**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Detail of Expenditure Estimates**  
**FY 2017-2019**

	<b>FY 2017</b>		<b>FY 2018</b>		<b>FY 2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Actual</b>	<b>Budget</b>
<b>Utilities<sup>(4)</sup>:</b>					
Electricity	\$ 1,714,264	\$ 1,680,000	\$ 1,654,364	\$ 1,586,881	\$ 1,657,000
Steam/Gas	608,118	591,600	700,252	633,616	671,600
Water/Sewer	161,593	124,600	158,921	155,510	159,600
	<u>\$ 2,483,975</u>	<u>\$ 2,396,200</u>	<u>\$ 2,513,537</u>	<u>\$ 2,376,007</u>	<u>\$ 2,488,200</u>
<b>Other Operating<sup>(5)</sup>:</b>					
Parking Management	\$ 190,550	\$ 218,000	\$ 244,800	\$ 248,680	\$ 270,931
Pedestrian Safety	162,836	159,000	164,000	127,973	168,100
Repairs - F&B	-	40,000	-	-	40,000
Landscaping	14,001	25,000	24,346	24,346	25,000
	<u>\$ 367,387</u>	<u>\$ 442,000</u>	<u>\$ 433,146</u>	<u>\$ 400,999</u>	<u>\$ 504,031</u>
<b>Administration/Other<sup>(6)</sup>:</b>					
Wages	\$ 94,973	\$ 102,200	\$ 101,803	\$ 111,648	\$ 104,606
Benefits	34,807	29,268	33,710	29,364	35,712
Accounting/Audit	46,882	27,000	57,262	62,519	48,000
Legal Services	14,833	38,500	22,000	23,584	30,000
DID Assessment <sup>(A)</sup>	38,405	55,422	40,254	60,326	58,200
Consulting Services	117,709	150,000 *	98,200 **	73,006	189,513 ***
Insurance	17,238	21,483	25,084	14,713	27,100
Marketing - CVB/WMSC	125,000	200,000	200,000	208,333	200,000
Diversity Initiative	68,077	150,000	90,000	60,420	75,000
Diversity - African-American Series	-	-	-	-	200,000
Procurement of Art (ArtPrize)	28,941	30,000	8,056	13,188	30,000
Other	107,531	60,000	35,000	232,055	60,000
	<u>\$ 694,396</u>	<u>\$ 863,873</u>	<u>\$ 711,369</u>	<u>\$ 889,156</u>	<u>\$ 1,058,131</u>

**Notes:**

<sup>(A)</sup> Downtown Improvement District special assessment contribution from CAA based on benefit allocation formula.

\*SMG-\$33,355 and \$116,645 for hotel study.

\*\*SMG-\$32,573, \$63,200 for hotel study, and \$2,427 for "facility life opinion."

\*\*\*SMG-\$53,225, \$96,775 for "destination asset study follow-up work," and \$39,513 for hotel study carryover balance.



**Table C**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Consolidated Income Statement**  
**Fiscal Years Ending June 30, 2017-2019**

		<b>FY 2017</b>		<b>FY 2018</b>		<b>FY 2019</b>	
		<b>Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Actual</b>	<b>Budget</b>	
Operating Revenue:							
Event	- VanAndel Arena	\$ 1,751,734	\$ 1,517,650	\$ 1,331,923	\$ 1,352,722	\$ 1,092,450	
	- DeVos Place	3,196,369	3,195,900	3,697,886	3,576,809	3,208,133	
Ancillary	- VanAndel Arena	2,037,715	1,397,670	1,879,821	1,952,062	1,488,399	
	- DeVos Place	2,675,613	2,533,410	2,697,725	2,765,584	2,631,492	
Other	- VanAndel Arena	3,425,712	2,947,100	3,395,633	3,462,421	3,266,850	
	- DeVos Place	619,257	608,000	808,982	850,546	679,551	
	-Administration	89,452	85,000	117,000	114,707	120,000	
Parking	- VanAndel Arena	314,180	384,987	442,000	366,974	454,000	
	- DeVos Place	1,411,690	1,361,766	1,500,000	1,521,621	1,518,000	
		<u>15,521,722</u>	<u>14,031,483</u>	<u>15,870,970</u>	<u>15,963,446</u>	<u>14,458,875</u>	
Operating Expense / Appropriations:							
Facility Operations							
	- VanAndel Arena	4,384,253	4,417,724	4,521,320	4,536,357	4,302,641	
	- DeVos Place	6,016,985	5,979,448	6,204,330	6,803,548	6,360,926	
	- Management	347,322	354,268	352,880	352,880	352,880	
	- Incentive	347,322	354,268	352,880	352,880	352,880	
	- Parking/Maintenance	367,387	442,000	433,146	400,999	504,031	
Other Operating		1,555,325	-	-	2,179,361	-	
Administration/Other		694,396	863,873	711,369	889,156	1,058,131	
		<u>13,712,990</u>	<u>12,411,581</u>	<u>12,575,925</u>	<u>15,515,181</u>	<u>12,931,489</u>	
Operating Income		1,808,732	1,619,902	3,295,045	448,265	1,527,386	
Non-Operating Revenue:							
Interest/Capital Contribution		176,908	286,250	258,000	282,816	392,000	
Transfer (to) from Capital Acct.		(804,403)	(4,385,000)	(3,728,838)	(438,744)	(6,188,190)	
		<u>(627,495)</u>	<u>(4,098,750)</u>	<u>(3,470,838)</u>	<u>(155,928)</u>	<u>(5,796,190)</u>	
<b>Net Income (Loss)</b>		<b>1,181,237</b>	<b>(2,478,848)</b>	<b>(175,793)</b>	<b>292,337</b>	<b>(4,268,804)</b>	
<b>Fund Balance, beg. of yr.</b>		<b>22,230,217</b>	<b>23,411,454</b>	<b>23,411,454</b>	<b>23,411,454</b>	<b>23,703,791</b>	
<b>Fund Balance, end of yr.</b>		<b>\$ 23,411,454</b>	<b>\$ 20,932,606</b>	<b>\$ 23,235,661</b>	<b>\$ 23,703,791</b>	<b>\$ 19,434,987</b>	

**Table D**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Budget Summary by Facility/Other**  
**FY 2017-2019 Actual/Estimate**  
**FY 2019 Budget**

	<b>FY 2017</b>		<b>FY 2018</b>		<b>FY 2019</b>
	<b>Actual</b>	<b>Budget</b>	<b>Estimate</b>	<b>Actual</b>	<b>Budget</b>
<b>Van Andel Arena</b>					
Operating - Revenues	\$ 7,215,161	\$ 5,862,420	\$ 6,607,377	\$ 6,767,205	\$ 5,847,699
- Expenses - Facilities	(4,384,253)	(4,417,724)	(4,521,320)	(4,536,357)	(4,302,641)
- Management Fees	(173,661)	(177,134)	(176,440)	(176,440)	(176,440)
- Incentive Fee	(178,902)	(101,780)	(125,069)	(133,957)	(92,319)
Net Operating Income (Loss)	2,478,345	1,165,782	1,784,548	1,920,451	1,276,299
Parking	314,180	384,987	442,000	366,974	454,000
Pedestrian Safety	(106,657)	(108,000)	(107,000)	(82,923)	(110,000)
<b>Net Proceeds (Cost) of VAA</b>	<b>2,685,868</b>	<b>1,442,769</b>	<b>2,119,548</b>	<b>2,204,502</b>	<b>1,620,299</b>
<b>DeVos Place Convention Center</b>					
Operating - Revenues	6,491,239	6,337,310	7,204,593	7,192,939	6,519,176
- Expenses - Facilities	(6,016,985)	(5,979,448)	(6,204,330)	(6,803,548)	(6,360,926)
- Management Fees	(173,661)	(177,134)	(176,440)	(176,440)	(176,440)
- Incentive Fee	(168,420)	(252,488)	(227,811)	(218,923)	(260,561)
Net Operating Loss	132,173	(71,760)	596,012	(5,972)	(278,751)
Parking	1,221,140	1,143,766	1,255,200	1,272,941	1,247,069
Pedestrian Safety	(56,179)	(51,000)	(57,000)	(45,050)	(58,100)
<b>Net Proceeds (Cost) of DVP</b>	<b>1,297,134</b>	<b>1,021,006</b>	<b>1,794,212</b>	<b>1,221,919</b>	<b>910,218</b>
<b>Other</b>					
Revenues					
Interest	176,908	286,250	258,000	282,816	392,000
Miscellaneous	89,452	85,000	117,000	114,707	120,000
	266,360	371,250	375,000	397,523	512,000
Expenses					
Administration	(694,396)	(863,873)	(711,369)	(889,156)	(1,058,131)
Other Operating	(14,001)	(65,000)	(24,346)	(24,346)	(65,000)
	(708,397)	(928,873)	(735,715)	(913,502)	(1,123,131)
<b>Net Other</b>	<b>(442,037)</b>	<b>(557,623)</b>	<b>(360,715)</b>	<b>(515,979)</b>	<b>(611,131)</b>
<b>Total Net Proceeds/Operating</b>	<b>3,540,965</b>	<b>1,906,152</b>	<b>3,553,045</b>	<b>2,910,442</b>	<b>1,919,386</b>
Capital Expenditures	(2,359,728)	(4,385,000)	(3,728,838)	(2,618,105)	(6,188,190)
Results Net of Capital Expenditures	\$ 1,181,237	\$ (2,478,848)	\$ (175,793)	\$ 292,337	\$ (4,268,804)

**Table E**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Summary of Consolidated Income Statement - By Facility**  
**Fiscal Years 2010 through 2019**  
**November 16, 2018**  
**(In Thousands)**

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Actual FY 2018</u>	<u>Budget FY 2019</u>
VAA - Net Proceeds	\$ 1,612	\$ 925	\$ 976	\$ 1,793	\$ 532	\$ 1,610	\$ 1,980	\$ 2,865	\$ 2,338	\$ 1,712
DVP - Net Proceeds	36	125	280	784	445	908	1,625	1,465	1,441	1,171
SMG Incentive Fees	(238)	-	-	(331)	-	(344)	(344)	(347)	(353)	(353)
Other-Net Proceeds	<u>(126) <sup>(1)</sup></u>	<u>(276)</u>	<u>(425)</u>	<u>(313) <sup>(1)</sup></u>	<u>(456)</u>	<u>(308)</u>	<u>(565)</u>	<u>(442)</u>	<u>(516)</u>	<u>(611)</u>
Total Net Operating	1,284	774	831	1,933	521	1,866	2,696	3,541	2,910	1,919
Capital	<u>(675)</u>	<u>(3,416)</u>	<u>(662)</u>	<u>(962)</u>	<u>(2,565)</u>	<u>(1,130)</u>	<u>(2,361)</u>	<u>(2,360)</u>	<u>(2,618)</u>	<u>(6,188)</u>
Transfer To/(From) Fund Balance	<u>609</u>	<u>(2,642)</u>	<u>169</u>	<u>971</u>	<u>(2,044)</u>	<u>736</u>	<u>335</u>	<u>1,181</u>	<u>292</u>	<u>(4,269)</u>
Fund Balance, End of Year	<u><u>\$ 24,728</u></u>	<u><u>\$ 22,066</u></u>	<u><u>\$ 22,234</u></u>	<u><u>\$ 23,204</u></u>	<u><u>\$ 21,160</u></u>	<u><u>\$ 21,896</u></u>	<u><u>\$ 22,230</u></u>	<u><u>\$ 23,411</u></u>	<u><u>\$ 23,703</u></u>	<u><u>\$ 19,434</u></u>

NOTES:

(1) Interest - \$322K in FY 2010, and declining further to \$93K in FY 2013.

**Table F**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**15 Year Fund Balance Projection**  
**(In Thousands)**  
**November 16, 2018**

	Beginning Fund Balance	Revenues	Expenses	Net Income/ (Loss)	Capital	Ending Fund Balance
FY 2018	\$ 23,411	\$ 16,246	\$ (13,336)	\$ 2,910	\$ (2,618)	\$ 23,703
FY 2019	23,703	14,851	(12,931)	1,920	(6,188)	19,435
FY 2020	19,435	15,351	(13,190)	2,161	(8,560)	13,036
FY 2021	13,036	15,539	(13,454)	2,085	(2,093)	13,028
FY 2022	13,028	15,862	(13,723)	2,139	(2,250)	12,917
FY 2023	12,917	16,188	(13,997)	2,191	(3,312)	11,796
FY 2024	11,796	16,486	(14,277)	2,209	(3,378)	10,627
FY 2025	10,627	16,789	(14,563)	2,226	(3,446)	9,407
FY 2026	9,407	17,098	(14,854)	2,244	(3,515)	8,136
FY 2027	8,136	17,414	(15,151)	2,263	(3,585)	6,814
FY 2028	6,814	17,734	(15,454)	2,280	(1,715)	7,379
FY 2029	7,379	18,130	(15,763)	2,367	(1,749)	7,997
FY 2030	7,997	18,536	(16,078)	2,458	(1,784)	8,671
FY 2031	8,671	18,951	(16,400)	2,551	(1,820)	9,402
FY 2032*	9,402	19,378	(16,728)	2,650	(1,856)	10,196

**NOTES:**

Revenues - Facilities increase by 2% per annum, parking facilities increase by 3% per annum and interest at 1.6% (FY19) to 3.50% (FY21) on beginning fund balance each year.

Expense (Operating) - Facilities increase by 2% per annum, parking/administration increase by 1% per annum.

Capital - Indexed at 2% per annum.

\*Final bond maturity - December 1, 2031.

**Table G**  
**Grand Rapids-Kent County Convention/Arena Authority**  
**Van Andel Arena®/DeVos Place®**  
**Reconcile FY 18 - SMG Capital Spending**

<b>Project</b>	<b>Budget</b>	<b>Actual 2018 Total</b>	<b>Carry to FY 19</b>	<b>Lapse</b>
<b>Van Andel Arena®</b>				
Arc Flash Hazard Analysis	\$ 75,000.00	\$ 25,290.00	\$ 2,750.00	\$ 46,960.00
Compressor Rebuilds (4)	\$ 140,000.00	\$ 113,325.59		\$ 26,674.41
Folding Chairs (replace 300 chairs)	\$ 60,000.00	\$ 48,264.00		\$ 11,736.00
Elevator Modernization Program	\$ 250,000.00	\$ 171,674.50	\$ 61,308.10	\$ 17,017.40
Concession Equipment	\$ 40,000.00	\$ 35,008.86		\$ 4,991.14
Ice Making Machines	\$ 70,000.00	\$ 60,089.41		\$ 9,910.59
Basketball Floor	\$ 100,000.00	\$ 104,761.00		\$ (4,761.00)
Dashers	\$ 230,000.00	\$ 385,646.90		\$ (155,646.90)
		\$ 944,060.26		
<b>DeVos Place®</b>				
Remove/Replace Floor in DVPH Locker Room/Sound Booth	\$ 150,000.00	\$ 55,200.00		\$ 94,800.00
Recycling Containers	\$ 125,000.00	\$ 124,989.20		\$ 10.80
Landscaping Trees	\$ 130,000.00		\$ 130,000.00	
Arc Flash Hazard Analysis	\$ 125,000.00	\$ 42,006.00	\$ 27,225.00	\$ 55,769.00
Phase 1 of VFD Drive Replacements	\$ 125,000.00	\$ 110,015.00		\$ 14,985.00
DVPH VIP Area	\$ 450,000.00			\$ 450,000.00
New Meters for Subs	\$ 50,000.00	\$ 36,180.00		\$ 13,820.00
New Michigan Street Dock Door	\$ 1,500,000.00	\$ 701,378.51	\$ 799,106.49	\$ (485.00)
Replace Radios	\$ 75,000.00	\$ 55,926.70		\$ 19,073.00
Welsh Lobby Exterior	\$ 125,000.00	\$ 47,555.00	\$ 37,800.00	\$ 39,645.00
Theater Bathrooms		\$ 52,232.84		
Rebuild Two Chillers		\$ 9,817.20		
		\$ 1,235,300.45		
<b>Total SMG - Repair/Maintenance</b>		<b>\$ 2,179,360.71</b>		
<b>Capitalized</b>				
Phase 3 Security System Camera Upgrades	\$ 125,000.00	\$ 116,798.80		\$ 8,201.20
DVPH Stage Lighting	\$ 165,000.00	\$ 164,991.29		\$ 8.71
Secchia Lobby Window Treatments	\$ 150,000.00	\$ 141,780.00		\$ 8,220.00
Riding Scrubber		\$ 15,173.85		
		<b>\$ 438,743.94</b>		
<b>Reclassified to Operating Expense</b>				
Locker Room Refurbish Study	\$ 40,000.00	\$ 25,304.18		\$ 14,695.82
DVPH Hearing Loop Upgrades	\$ 35,000.00	\$ 25,584.00		\$ 9,416.00
Door Redesign for GG	\$ 50,000.00	\$ 28,701.57		\$ 21,298.43
		\$ 79,589.75		
<b>Totals</b>	<b>\$ 4,385,000.00</b>	<b>\$ 2,697,694.40</b>	<b>\$ 1,058,189.59</b>	<b>\$ 706,339.60</b>

**Grand Rapids-Kent County  
Convention/Arena Authority  
Consolidated Financial Report  
October 31, 2018**

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**Financial Dashboard  
Year-To-Date (4 Months)  
October 31, 2018**

Van Andel Arena®						
	All Events			Concert		
	Prior Year	Budget	Actual	Prior Year	Budget	Actual
Events	24	17	15	6	10	11
Attendance	112,532	128,000	122,177	43,102	85,000	95,051
Event Income	\$ 822,202	\$ 1,010,007	\$ 1,021,720	\$ 487,863	\$ 814,168	\$ 921,676
DeVos Place®						
	All Events			Convention/Trade		
	Prior Year	Budget	Actual	Prior Year	Budget	Actual
Events	161	153	166	69	72	69
Attendance	120,370	129,705	180,322	66,008	70,250	44,490
Event Income	\$ 1,852,710	\$ 1,789,435	\$ 1,915,440	\$ 996,285	\$ 873,601	\$ 937,480
				Prior Year	Budget	Actual
Operating Income (Loss)				\$ 66,504	\$ 259,568	\$ 590,485
Capital/Repair/Replacement				(1,107,566)	(1,571,091)	(1,528,527)
Net - To/(From) on Fund Balance				\$ (1,041,062)	\$ (1,311,523)	\$ (938,042)

\*NOTES: (1):

Unrestricted Fund Balance @ June 30, 2018

\$ 25,387,726

**Grand Rapids-Kent County Convention/Arena Authority**  
**Summary by Facility/Other**  
**Fiscal Year Ending June 30, 2019**

	<b>FY 2019</b>				<b>FY 2018</b>
	<b>7/1 - 10/31</b>				
	<b>Year-to-Date</b>	<b>Roll</b>	<b>Estimate<sup>(1)</sup></b>	<b>Budget</b>	<b>Prior Year</b>
<b>Van Andel Arena</b>					
Operating - Revenues	\$ 1,881,831	\$ 4,264,220	\$ 6,146,051	\$ 5,847,699	\$ 6,767,205
- Expenses - Facilities	(1,407,930)	\$ (2,954,711)	(4,362,641)	(4,302,641)	(4,536,357)
- Base Management Fees	(58,813)	\$ (117,627)	(176,440)	(176,440)	(176,440)
- Incentive Fee	-	\$ (92,319)	(92,319)	(92,319)	(133,957)
Net Operating Income (Loss)	415,088	\$ 1,099,563	1,514,651	1,276,299	1,920,451
Parking	104,110	\$ 349,890	454,000	454,000	366,974
Pedestrian Safety	(11,945)	\$ (98,055)	(110,000)	(110,000)	(82,923)
<b>Net Proceeds (Cost) of VAA</b>	<b>507,253</b>	<b>\$ 1,351,398</b>	<b>1,858,651</b>	<b>1,620,299</b>	<b>2,204,502</b>
<b>DeVos Place Convention Center</b>					
Operating - Revenues	1,934,443	\$ 4,654,752	6,589,195	6,519,176	7,192,939
- Expenses - Facilities	(2,044,193)	\$ (4,316,733)	(6,360,926)	(6,360,926)	(6,803,548)
- Base Management Fees	(58,813)	\$ (117,627)	(176,440)	(176,440)	(176,440)
- Incentive Fee	-	\$ (260,561)	(260,561)	(260,561)	(218,923)
Net Operating Income (Loss)	(168,563)	\$ (40,169)	(208,732)	(278,751)	(5,972)
Parking	335,251	\$ 911,818	1,247,069	1,247,069	1,272,941
Pedestrian Safety	(5,982)	\$ (52,118)	(58,100)	(58,100)	(45,050)
<b>Net Proceeds (Cost) of DVP</b>	<b>160,706</b>	<b>\$ 819,531</b>	<b>980,237</b>	<b>910,218</b>	<b>1,221,919</b>
<b>Other</b>					
Revenues	140,232	\$ 371,768	512,000	512,000	397,523
Expenses	(217,706)	\$ (905,425)	(1,123,131)	(1,123,131) <sup>(3)</sup>	(913,502) <sup>(2)</sup>
<b>Net Other</b>	<b>(77,474)</b>	<b>\$ (533,657)</b>	<b>(611,131)</b>	<b>(611,131)</b>	<b>(515,979)</b>
<b>Total Net Proceeds/Operating</b>	<b>590,485</b>	<b>\$ 1,637,272</b>	<b>2,227,757</b>	<b>1,919,386</b>	<b>2,910,442</b>
Capital Expenditures	(1,528,527)	\$ (4,617,099)	(6,145,626)	(6,188,190) <sup>(4)</sup>	(2,618,105)
<b>Results Net of Capital Expenditures</b>	<b>\$ (938,042)</b>	<b>\$ (2,979,827)</b>	<b>\$ (3,917,869)</b>	<b>\$ (4,268,804)</b>	<b>\$ 292,337</b>

Notes:

<sup>(1)</sup> Second Quarter Update to be Provided with January Financial Report (2/1/19 Board Meeting).

<sup>(2)</sup> Includes One-Time Contribution, of \$200,000, to Deferred Compensation Plan.

<sup>(3)</sup> Includes budget amendment to provide for hotel study carryover balance of \$39,513.

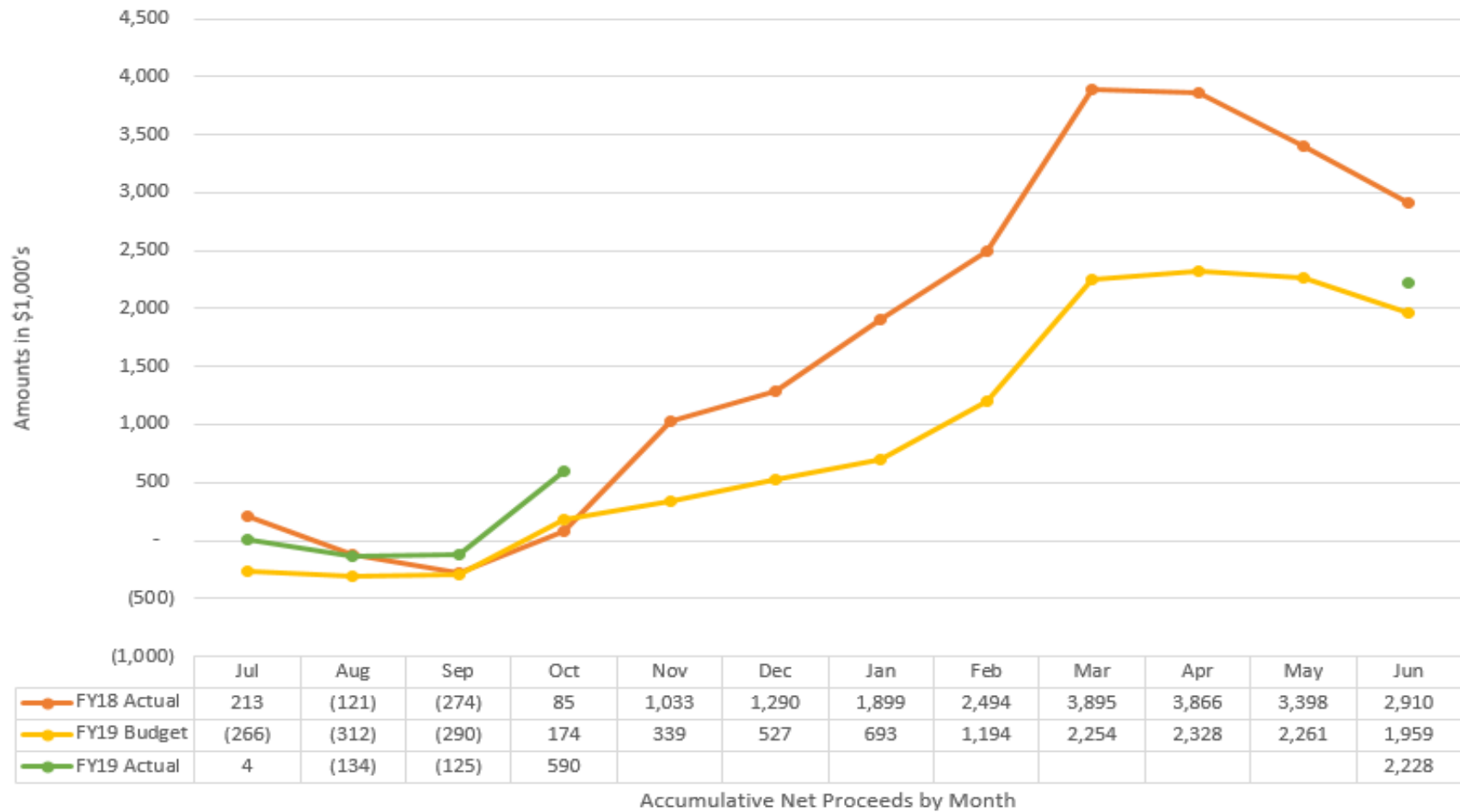
<sup>(4)</sup> Includes budget amendment to provide for several capital project balances carried over from FY 18. See June 2018 consolidated financial report for details.



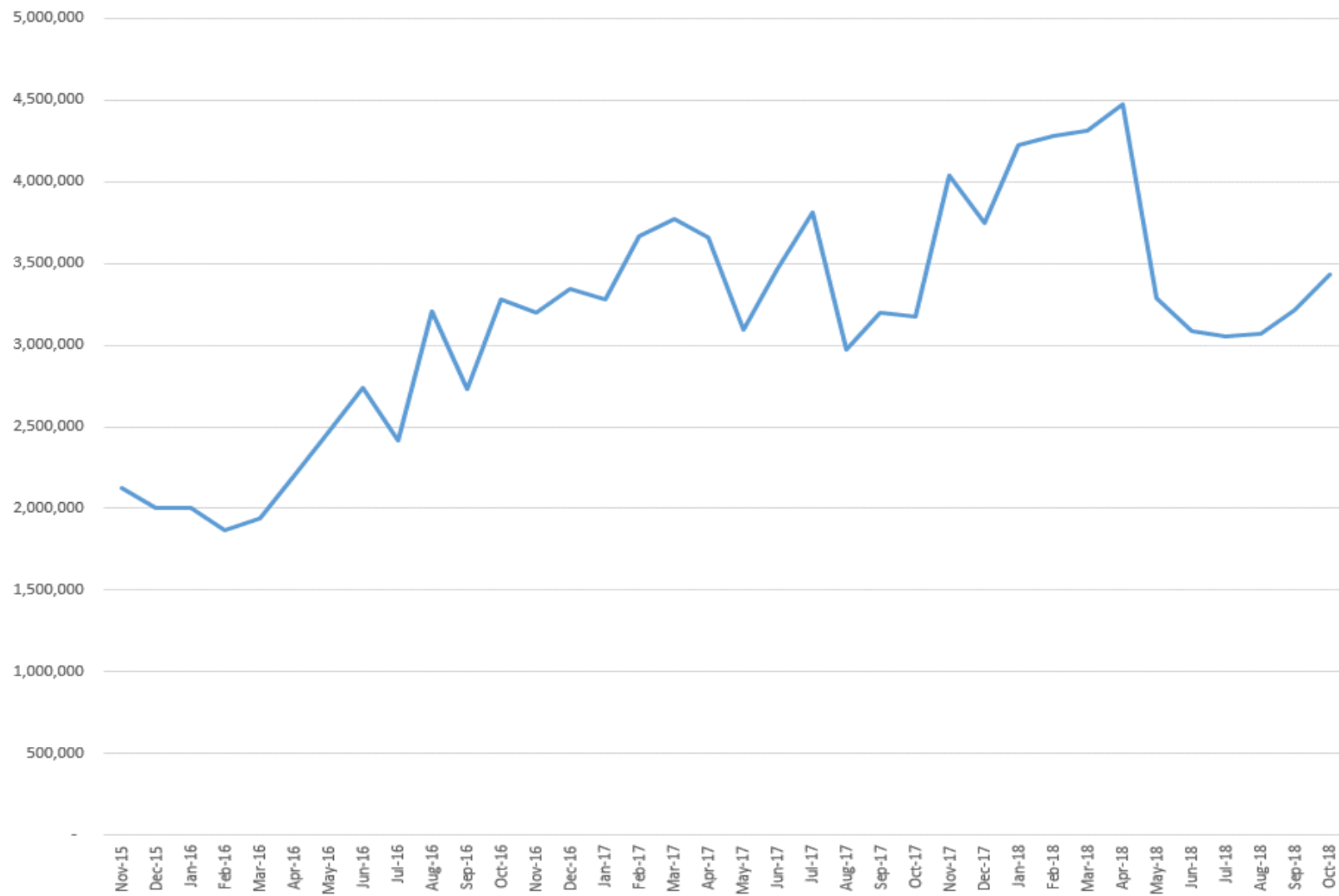
**Grand Rapids-Kent County Convention/Arena Authority**  
**Budget Summary by Facility/Other**  
**Financial Trends for Year Ending June 30, 2019**

	<b>Annual</b>			<b>Year-To-Date</b>		
	<b>FY 2018 Final</b>	<b>FY 2019 Budget</b>	<b>Percentage Change</b>	<b>FY 2018 7/1-10/31</b>	<b>FY 2019 7/1 - 10/31</b>	<b>Percentage Change</b>
<b>Van Andel Arena</b>						
Operating - Revenues	\$ 6,767,205	\$ 5,847,699	(13.6)	\$ 1,551,822	\$ 1,881,831	21.3
- Expenses - Facilities	(4,536,357)	(4,302,641)	5.2	(1,327,483)	(1,407,930)	(6.1)
- Base Management Fees	(176,440)	(176,440)	0.0	(58,813)	(58,813)	0.0
- Incentive Fee	(133,957)	(92,319)	31.1	-	-	-
Net Operating Income (Loss)	1,920,451	1,276,299	(33.5)	165,526	415,088	150.8
Parking	366,974	454,000	23.7	114,500	104,110	(9.1)
Pedestrian Safety	(82,923)	(110,000)	(32.7)	(7,268)	(11,945)	(64.4)
<b>Net Proceeds (Cost) of VAA</b>	<b>2,204,502</b>	<b>1,620,299</b>	<b>(26.5)</b>	<b>272,758</b>	<b>507,253</b>	<b>86.0</b>
<b>DeVos Place Convention Center</b>						
Operating - Revenues	7,192,939	6,519,176	(9.4)	1,865,327	1,934,443	3.7
- Expenses - Facilities	(6,803,548)	(6,360,926)	6.5	(2,167,342)	(2,044,193)	5.7
- Base Management Fees	(176,440)	(176,440)	0.0	(58,813)	(58,813)	0.0
- Incentive Fee	(218,923)	(260,561)	(19.0)	-	-	-
Net Operating Income (Loss)	(5,972)	(278,751)	(4567.6)	(360,828)	(168,563)	53.3
Parking	1,272,941	1,247,069	(2.0)	264,308	335,251	26.8
Pedestrian Safety	(45,050)	(58,100)	(29.0)	(7,067)	(5,982)	15.4
<b>Net Proceeds (Cost) of DVP</b>	<b>1,221,919</b>	<b>910,218</b>	<b>(25.5)</b>	<b>(103,587)</b>	<b>160,706</b>	<b>155.2</b>
<b>Other</b>						
Revenues	397,523	512,000	28.8	80,996	140,232	73.1
Expenses	(913,502)	(1,123,131)	(22.9)	(183,672)	(217,706)	(18.5)
<b>Net Other</b>	<b>(515,979)</b>	<b>(611,131)</b>	<b>(18.4)</b>	<b>(102,676)</b>	<b>(77,474)</b>	<b>24.5</b>
<b>Total Net Proceeds/Operating</b>	<b>2,910,442</b>	<b>1,919,386</b>	<b>(34.1)</b>	<b>66,495</b>	<b>590,485</b>	<b>787.9</b>
Capital/Repair Expenditures	(2,618,105)	(6,188,190)	(136.4)	(1,107,566)	(1,528,527)	(38.0)
<b>Results Net of Capital Expenditures</b>	<b>\$ 292,337</b>	<b>(4,268,804)</b>	<b>(1,460.2)</b>	<b>\$ (1,041,071)</b>	<b>\$ (938,042)</b>	<b>9.9</b>

### CAA Trends Monthly Net Operating Proceeds through October 31, 2018



### Lagging 12 Months Net Operating Proceeds



## Significant Notes

### Van Andel Arena®

- Page 1 - Eleven concerts generated \$921,676 in event revenue, an increase of 88.9% from prior year (6 concerts) of \$487,863.
- Page 3 - Net proceeds of \$507,253 increased by 86.0% from prior year of \$272,758.

### DeVos Place®

- Page 1 - Convention/trade show business generated \$937,480 in event revenue, a decrease of (5.9%) from prior year (attendance decreased from 66,008 to 44,490) of \$996,285.
- Page 3 - Net "proceeds" of \$160,760 increased by +155.2% from prior year Net Proceeds of (\$103,587).

**Grand Rapids-Kent County Convention/Arena Authority**  
**Administrative Accounts**  
**Net Other Detail**  
**October 31, 2018**

	Annual			Actual		
	FY 2018 Final	FY 2019 Budget	Percentage Change	FY 2018 7/1-10/31	FY 2019 7/1/-10/31	Percentage Change
Other						
Revenues						
Interest/Capital Contr.	\$ 282,816	\$ 392,000	38.6	\$ 77,340	\$ 140,232	81.3
Miscellaneous	114,707	120,000	4.6	3,656	-	(100.0)
	<u>397,523</u>	<u>512,000</u>	<u>28.2</u>	<u>80,996</u>	<u>140,232</u>	<u>73.1</u>
Expenses						
Marketing (CVB/Sports)	208,333	200,000	(4.0)	-	-	-
Diversity Initiative	60,420	275,000	355.1	22,345	10,866	(51.4)
Wages/Benefits	141,012	140,318	(0.5)	38,770	37,633	(2.9)
Professional Services	86,103	78,000	(9.4)	29,927	26,260	(12.3)
DID Assessment	60,326	58,200	(3.5)	40,254	62,616	55.6
Food & Beverage Repairs	-	40,000	100.0+	-	2,623	100.0+
Consulting Services	73,006	189,513 <sup>(1)</sup>	159.6	8,143	24,269	198.0
Landscaping	24,346	25,000	2.7	8,131	-	(100.0)
Procurement of Art	13,188	30,000	127.5	8,056	26,214	225.4
Insurance	14,713	27,100	84.2	25,084	23,896	(4.7)
Supplies/Other	232,055 <sup>(2)</sup>	60,000	(74.1)	2,962	3,329	12.4
	<u>913,502</u>	<u>1,123,131</u>	<u>22.9</u>	<u>183,672</u>	<u>217,706</u>	<u>18.5</u>
Net Proceeds - Operating	<u>\$ (515,979)</u>	<u>\$ (611,131)</u>	<u>(18.4)</u>	<u>\$ (102,676)</u>	<u>\$ (77,474)</u>	<u>24.5</u>

Notes:

<sup>(1)</sup> Includes SMG \$53,225 and \$39,513 for hotel study, and \$96,775 for "destination asset study follow-up work."

<sup>(2)</sup> Includes \$200,000 one-time payment to deferred comp. trust.



# **VAN ANDEL ARENA**

## **FINANCIAL STATEMENT FOR THE PERIOD ENDED OCTOBER 31, 2018**

**PROUD HOME OF THE GRAND RAPIDS GRIFFINS – TWO TIME CALDER CUPS CHAMPIONS**



### **Distribution:**

**Grand Rapids – Kent County Convention / Arena Authority**

**Robert White**

**Harry Cann**

**Hope Parkin**

**Howard Feldman**

**Richard MacKeigan**

**Chris Machuta**



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***An SMG Managed Facility***

**VAN ANDEL ARENA  
ROLLING FORECAST  
FISCAL YEAR ENDING JUNE 30, 2019**

	YTD	ROLL	TOTAL FYE	BUDGET FYE	VARIANCE
<b>NO. EVENTS</b>	15	84	99	94	5
<b>ATTENDANCE</b>	122,177	517,087	639,264	605,600	33,664
<b>DIRECT EVENT INCOME</b>	224,449	896,889	1,121,338	1,092,450	28,888
<b>ANCILLARY INCOME</b>	454,649	1,175,165	1,629,814	1,488,399	141,415
<b>OTHER EVENT INCOME</b>	342,622	624,927	967,549	875,500	92,049
<b>TOTAL EVENT INCOME</b>	1,021,720	2,696,981	3,718,701	3,456,349	262,352
<b>TOTAL OTHER INCOME</b>	860,111	1,567,239	2,427,350	2,391,350	36,000
<b>TOTAL INCOME</b>	1,881,831	4,264,220	6,146,051	5,847,699	298,352
<b>INDIRECT EXPENSES</b>					
EXECUTIVE	60,088	161,059	221,147	221,147	-
FINANCE	78,412	130,603	209,015	209,015	-
MARKETING	91,948	144,830	236,778	236,778	-
OPERATIONS	744,711	1,380,258	2,124,969	2,064,969	(60,000)
BOX OFFICE	43,440	141,633	185,073	185,073	-
LUXURY SEATING	-	89,920	89,920	89,920	-
SKYWALK ADMIN	12,678	35,422	48,100	48,100	-
OVERHEAD	435,469	988,610	1,424,079	1,424,079	-
<b>TOTAL INDIRECT EXP.</b>	1,466,743	3,072,335	4,539,081	4,479,081	(60,000)
<b>NET REVENUE ABOVE EXPENSES</b>	415,088	1,191,885	1,606,970	1,368,618	238,352
<b>LESS INCENTIVE FEE</b>		115,802	115,802	92,319	(23,483)
<b>NET REVENUE ABOVE EXPENSES AFTER INCENTIVE</b>	415,088	1,076,083	1,491,168	1,276,299	214,869

**Comments:**

The Arena had a successful October with sold out Thomas Rhett, Fleetwood Mac, and Elton John concerts. The month also hosted the 22nd consecutive opening night sellout for the Griffins as they kick off their new season.

  
General Manager

  
Assistant General Manager

**VAN ANDEL ARENA  
FINANCIAL STATEMENT HIGHLIGHTS  
FOR FISCAL YEAR ENDING JUNE 30, 2019**

The following schedule summarizes operating results for both the current month and Year to Date as compared to budget and prior year:

<b>MONTH</b>	<b>October Actual</b>	<b>October Budget</b>	<b>October FY 2018</b>
Number of Events	7	10	12
Attendance	60,633	72,000	63,798
Direct Event Income	\$169,359	\$247,500	\$110,716
Ancillary Income	225,568	207,107	141,904
Other Event Income	144,224	141,500	117,362
Other Operating Income	306,070	256,062	178,968
Indirect Expenses	(393,408)	(373,256)	(298,951)
Net Income	<u>\$451,813</u>	<u>\$478,913</u>	<u>\$249,999</u>

<b>YTD</b>	<b>YTD 2019 Actual</b>	<b>YTD 2019 Budget</b>	<b>YTD 2018 Prior Year</b>
Number of Events	15	17	24
Attendance	122,177	128,000	112,532
Direct Event Income	\$224,449	\$390,500	\$250,050
Ancillary Income	454,649	367,757	325,006
Other Event Income	342,622	337,500	247,146
Other Operating Income	860,111	847,248	729,620
Indirect Expenses	(1,466,743)	(1,493,024)	(1,386,296)
Net Income	<u>\$415,088</u>	<u>\$449,981</u>	<u>\$165,526</u>

**EVENT INCOME**

Event income fell below expectations for the month as an overall number of events hosted fell below expectations, however, consistent with the revised forecast.

**ANCILLARY INCOME**

Ancillary income came in ahead of budget overall on strong per cap spending on concessions that helped offset the lower number of expected shows.

**INDIRECT EXPENSES**

Indirect expenses came in consistent with budget overall and continue to run consistent with year to date budget.



**Van Andel Arena**  
**Income Statement**  
**For the Four Months Ended October 31, 2018**

	Current Month Actual	Current Month Budget	Variance	Current Month Prior Year	Year to Date Actual	Year to Date Budget	Variance	Year to Date Prior Year
<b>Event Income</b>								
<b>Direct Event Income</b>								
Rental Income	\$218,932	\$240,750	(\$21,818)	\$212,155	\$250,051	\$390,750	(\$140,699)	\$391,638
Service Revenue	308,823	323,000	(14,177)	272,154	944,446	820,000	124,446	777,252
Service Expenses	(358,396)	(402,000)	43,604	(373,593)	(970,048)	(906,000)	(64,048)	(918,840)
<b>Total Direct Event Income</b>	<b>169,359</b>	<b>161,750</b>	<b>7,609</b>	<b>110,716</b>	<b>224,449</b>	<b>304,750</b>	<b>(80,301)</b>	<b>250,050</b>
<b>Ancillary Income</b>								
F&B Concession	176,128	173,348	2,780	124,015	357,518	295,778	61,740	260,416
F&B Catering	24,114	16,329	7,785	12,368	44,950	32,709	12,241	29,478
Novelty Sales	25,326	17,430	7,896	5,115	51,686	39,270	12,416	25,533
Booth Cleaning	0	0	0	406	0	0	0	2,344
Audio Visual	0	0	0	0	495	0	495	7,235
Other Ancillary	0	0	0	0	0	0	0	0
<b>Total Ancillary Income</b>	<b>225,568</b>	<b>207,107</b>	<b>18,461</b>	<b>141,904</b>	<b>454,649</b>	<b>367,757</b>	<b>86,892</b>	<b>325,006</b>
<b>Other Event Income</b>								
Ticket Rebates(Per Event)	144,224	141,500	2,724	117,362	342,622	337,500	5,122	247,146
<b>Total Other Event Income</b>	<b>144,224</b>	<b>141,500</b>	<b>2,724</b>	<b>117,362</b>	<b>342,622</b>	<b>337,500</b>	<b>5,122</b>	<b>247,146</b>
<b>Total Event Income</b>	<b>539,151</b>	<b>510,357</b>	<b>28,794</b>	<b>369,982</b>	<b>1,021,720</b>	<b>1,010,007</b>	<b>11,713</b>	<b>822,202</b>
<b>Other Operating Income</b>								
Luxury Box Agreements	240,998	199,979	41,019	118,631	619,628	622,916	(3,288)	504,777
Advertising	56,680	52,083	4,597	56,680	209,505	208,332	1,173	205,571
Other Income	8,392	4,000	4,392	3,657	30,978	16,000	14,978	19,272
<b>Total Other Operating Income</b>	<b>306,070</b>	<b>256,062</b>	<b>50,008</b>	<b>178,968</b>	<b>860,111</b>	<b>847,248</b>	<b>12,863</b>	<b>729,620</b>
<b>Adjusted Gross Income</b>	<b>845,221</b>	<b>766,419</b>	<b>78,802</b>	<b>548,950</b>	<b>1,881,831</b>	<b>1,857,255</b>	<b>24,576</b>	<b>1,551,822</b>
<b>Operating Expenses</b>								
Salaries and Wages	225,533	189,190	36,343	188,109	804,380	756,760	47,620	708,614
Payroll Taxes and Benefits	45,392	57,863	(12,471)	56,993	120,922	231,452	(110,530)	195,395
Labor Allocations to Events	(144,915)	(90,873)	(54,042)	(125,693)	(338,711)	(363,492)	24,781	(355,383)
<b>Net Salaries and Benefits</b>	<b>126,010</b>	<b>156,180</b>	<b>(30,170)</b>	<b>119,409</b>	<b>586,591</b>	<b>624,720</b>	<b>(38,129)</b>	<b>548,626</b>
Contracted Services	23,723	21,200	2,523	16,366	106,464	84,800	21,664	91,543
General and Administrative	43,711	29,339	14,372	32,461	162,045	117,356	44,689	161,701
Operations	3,139	7,599	(4,460)	4,640	27,877	30,396	(2,519)	19,004
Repair and Maintenance	47,279	31,049	16,230	26,250	137,441	124,196	13,245	121,800
Operational Supplies	52,784	21,808	30,976	29,365	96,225	87,232	8,993	62,070
Insurance	17,525	14,161	3,364	18,291	41,227	56,644	(15,417)	36,311
Utilities	64,534	77,217	(12,683)	52,169	250,060	308,868	(58,808)	286,428
SMG Management Fees	14,703	14,703	0	0	58,813	58,812	1	58,813
<b>Total Operating Expenses</b>	<b>393,408</b>	<b>373,256</b>	<b>20,152</b>	<b>298,951</b>	<b>1,466,743</b>	<b>1,493,024</b>	<b>(26,281)</b>	<b>1,386,296</b>
<b>Net Income(Loss) From Operations</b>	<b>451,813</b>	<b>393,163</b>	<b>58,650</b>	<b>249,999</b>	<b>415,088</b>	<b>364,231</b>	<b>50,857</b>	<b>165,526</b>
<b>Other Non-Operating Expenses</b>								
<b>Adjusted Net Income(Loss)</b>	<b>451,813</b>	<b>393,163</b>	<b>58,650</b>	<b>249,999</b>	<b>415,088</b>	<b>364,231</b>	<b>50,857</b>	<b>165,526</b>

**SMG - Van Andel Arena**  
**Grand Rapids - Kent County Convention/Arena Authority**  
**Event Summary**  
**For the Four Months ended October 31, 2018**

Event Type	Events/Days		Attendance		Total Event Income	
	Actual	Budget	Actual	Budget	Actual	Budget
Family Show		1		4,000		55,390
Sporting Event						
Concert	11	10	95,051	85,000	921,676	814,168
Team Home Games	3	5	17,811	31,000	29,626	60,500
Other	1	1	9,315	8,000	70,417	79,950
GRAND TOTALS	15	17	122,177	128,000	1,021,720	1,010,007

**As Percentage of Overall**

Family Show	0.00%	5.88%	0.00%	3.13%	0.00%	5.48%
Sporting Event	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Concert	73.33%	58.82%	77.80%	66.41%	90.21%	80.61%
Team Home Games	20.00%	29.41%	14.58%	24.22%	2.90%	5.99%
Other	6.67%	5.88%	7.62%	6.25%	6.89%	7.92%

**Van Andel Arena**  
**Balance Sheet**  
**As of October 31, 2018**

**ASSETS**

**Current Assets**

Cash	14,270,903
Account Receivable	1,258,664
Prepaid Expenses	136,836

**Total Current Assets**

**\$15,666,402**

**Total Assets**

**\$15,666,402**

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts Payable	2,440,203
Accrued Expenses	212,601
Deferred Income	2,604,333
Advanced Ticket Sales & Deposits	11,073,282

**Total Current Liabilities**

**\$16,330,419**

**Other Liabilities**

**Equity**

Funds Remitted to CAA	(845,172)
Expenses Paid Direct by CAA	206,205
Beginning Balance Equity	(440,135)
Current Year Equity	415,086

**Total Equity**

**(\$664,016)**

**Total Liabilities and Equity**

**\$15,666,402**

5

**SMG - Van Andel Arena**  
**Grand Rapids - Kent County Convention/Arena Authority**  
**Summary of Accounts Receivable**  
**As of October 31, 2018**

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Current - Under 30 Days	
Food & Beverage	-
Ticketing	188,001
Merchandise	-
Permanent Advertising	661,315
DeVos Place	256,271
Operating	122,290
 Over 30 Days	 15,396
 Over 60 Days	 15,391
 Over 90 Days	
 Total Accounts Receivable	 1,258,664

**SMG - Van Andel Arena & DeVos Place  
Grand Rapids - Kent County Convention/Arena Authority  
Management Fee Summary  
Fiscal Year Ending June 30, 2019**

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**MANAGEMENT FEE SUMMARY**

	Arena Estimate	DeVos Place Estimate	Total Estimate	FY 2018 Audited
Net Revenue above Expenses	1,606,970	51,829	1,658,799	2,267,359
Benchmark++			1,050,000	750,000
Excess	1,606,970	51,829	608,799	1,517,359

Incentive Fee Calculation (Only if above greater than zero)

	Arena Estimate	DeVos Place Estimate	Total Estimate	Total Audited
Base Fee	176,440	176,440	352,880	352,880
Incentive Fee				
Revenue	6,146,051	6,589,195	12,735,246	13,960,144
Benchmark Revenue	5,150,000	4,550,000	9,700,000	9,700,000
Revenue Excess	996,051	2,039,195	3,035,246	4,260,144
Incentive Fee **	115,802	237,078	352,880	352,880
Total SMG Management Fee	292,242	413,518	705,760	705,760

\*\* Incentive fee is 25% of the first \$500,000 in excess, 30% of remaining capped at base fee amount.

++ SMG will be eligible for an Incentive fee if Net Revenues exceed Expenses by the following amounts:

Equal to \$850,000 and less than \$950,000 shall be paid at 50% of calculated fee.

Equal to \$950,000 and less than \$1,050,000 shall be paid at 75% of calculated fee.

Equal to \$1,050,000 and above shall be paid at 100% of calculated fee.

# DEVOS PLACE

## DE VOS PLACE

**FINANCIAL STATEMENT  
FOR THE PERIOD ENDED OCTOBER 31, 2018**

**Distribution:**

Grand Rapids – KentCounty Convention / Arena Authority  
Robert White  
Harry Cann  
Hope Parkin  
Howard Feldman  
Richard MacKeigan  
Chris Machuta



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*An SMG Managed Facility*


**DE VOS PLACE  
ROLLING FORECAST  
FISCAL YEAR ENDING JUNE 30, 2019**

	<b>YTD Actual</b>	<b>Roll</b>	<b>TOTAL FYE</b>	<b>BUDGET FYE</b>	<b>VARIANCE</b>
<b>NO. EVENTS</b>	166	318	484	464	20
<b>ATTENDANCE</b>	130,322	536,672	666,994	679,555	(12,561)
<b>DIRECT EVENT INCOME</b>	899,157	2,371,144	3,270,301	3,208,133	62,168
<b>ANCILLARY INCOME</b>	875,254	1,735,956	2,611,210	2,631,492	(20,282)
<b>OTHER EVENT INCOME</b>	141,030	474,654	615,684	587,551	28,133
<b>TOTAL EVENT REVENUE</b>	1,915,441	4,581,754	6,497,195	6,427,176	70,019
<b>TOTAL OTHER REVENUE</b>	19,000	73,000	92,000	92,000	-
<b>TOTAL OPERATING REVENUE</b>	1,934,441	4,654,754	6,589,195	6,519,176	70,019
<b>INDIRECT EXPENSES</b>					
<b>EXECUTIVE</b>	63,791	178,856	242,647	242,647	-
<b>FINANCE</b>	85,040	207,779	292,819	292,819	-
<b>MARKETING</b>	38,987	181,474	220,461	220,461	-
<b>OPERATIONS</b>	377,740	1,214,244	1,591,984	1,591,984	-
<b>EVENT SERVICES</b>	538,437	769,675	1,308,112	1,308,112	-
<b>BOX OFFICE</b>	78,396	107,576	185,972	185,972	-
<b>SALES</b>	145,746	204,109	349,855	349,855	-
<b>OVERHEAD</b>	774,872	1,570,644	2,345,516	2,345,516	-
<b>TOTAL OPERATING EXP.</b>	2,103,009	4,434,357	6,537,366	6,537,366	-
<b>NET REVENUE ABOVE EXPENSES</b>	(168,568)	220,397	51,829	(18,190)	70,019
<b>INCENTIVE FEE</b>		237,078	237,078	260,561	23,483
<b>NET OPERATING REVENUE OVER OPERATING EXPENSES</b>	(168,568)	(16,681)	(185,249)	(278,751)	93,502

**Comments:**

October was a very strong month that exceeded budget mainly due to an originally budgeted September event taking place in October and the theater hosting 4 strong concerts during the month.

  
General Manager

  
Assistant General Manager

**DE VOS PLACE**  
**FINANCIAL STATEMENT HIGHLIGHTS**  
**FISCAL YEAR ENDING JUNE 30, 2019**

The following schedule summarizes operating results for both the current month and Year to Date as compared to budget and prior year:

<b>MONTH</b>	<b>October Actual</b>	<b>October Budget</b>	<b>October FY 2018</b>
Number of Events	63	54	47
Attendance	64,508	35,350	42,190
Direct Event Income	\$393,140	\$291,419	\$258,355
Ancillary Income	375,038	247,238	349,842
Other Event Income	58,866	50,600	45,847
Other Operating Income	8,239	7,666	3,878
Indirect Expenses	(521,294)	(544,780)	(632,846)
Net Income	<u>\$313,989</u>	<u>\$52,143</u>	<u>\$25,076</u>

<b>YTD</b>	<b>YTD 2019 Actual</b>	<b>YTD 2019 Budget</b>	<b>YTD 2018 Prior Year</b>
Number of Events	166	153	161
Attendance	130,322	129,705	120,370
Direct Event Income	\$899,158	\$826,999	\$800,893
Ancillary Income	875,255	833,806	905,428
Other Event Income	141,030	128,630	146,389
Other Operating Income	19,000	30,664	12,617
Indirect Expenses	(2,103,006)	(2,179,120)	(2,226,155)
Net Income	<u>(\$168,563)</u>	<u>(\$359,021)</u>	<u>(\$360,827)</u>

**EVENT INCOME**

Event income came in ahead of budget due to a shift in the calendar on a large event from September to October.

**ANCILLARY INCOME**

Ancillary income came in well ahead of budget with all categories meeting or exceeding expectations across the board.

**INDIRECT EXPENSES**

Indirect expenses came in consistent with budget overall for the month and year to date.



**DeVos Place**  
**Income Statement**  
**For the Four Months Ended October 31, 2018**

	Current Month Actual	Current Month Budget	Variance	Current Month Prior Year	Year to Date Actual	Year to Date Budget	Variance	Year to Date Prior Year
<b>Event Income</b>								
<b>Direct Event Income</b>								
Rental Income	\$423,049	\$316,074	\$106,975	\$297,200	\$1,039,439	\$961,710	\$77,729	\$977,349
Service Revenue	479,087	301,207	177,880	227,650	920,878	916,473	4,405	677,367
Service Expenses	(508,996)	(325,862)	(183,134)	(266,495)	(1,061,159)	(1,051,184)	(9,975)	(853,823)
<b>Total Direct Event Income</b>	<b>393,140</b>	<b>291,419</b>	<b>101,721</b>	<b>258,355</b>	<b>899,158</b>	<b>826,999</b>	<b>72,159</b>	<b>800,893</b>
<b>Ancillary Income</b>								
F&B Concession	19,798	13,350	6,448	28,420	57,075	40,599	16,476	66,218
F&B Catering	134,785	97,253	37,532	126,496	352,946	308,336	44,610	370,479
Novelty Sales	7,606	4,560	3,046	2,012	13,965	10,720	3,245	9,591
Booth Cleaning	26,908	18,584	8,324	39,206	74,322	98,922	(24,600)	90,821
Telephone/Long Distance	0	0	-	1,875	338	400	(62)	7,093
Electrical Services	64,398	28,740	35,658	68,897	125,623	156,540	(30,917)	139,651
Audio Visual	73,350	47,444	25,906	47,071	150,833	116,792	34,041	113,344
Internet Services	22,267	10,338	11,929	15,259	43,521	37,934	5,587	37,689
Equipment Rental	25,926	26,969	(1,043)	20,606	56,632	63,563	(6,931)	70,542
<b>Total Ancillary Income</b>	<b>375,038</b>	<b>247,238</b>	<b>127,800</b>	<b>349,842</b>	<b>875,255</b>	<b>833,806</b>	<b>41,449</b>	<b>905,428</b>
<b>Other Event Income</b>								
Ticket Rebates(Per Event)	58,866	50,600	8,266	45,847	141,030	128,630	12,400	146,389
<b>Total Other Event Income</b>	<b>58,866</b>	<b>50,600</b>	<b>8,266</b>	<b>45,847</b>	<b>141,030</b>	<b>128,630</b>	<b>12,400</b>	<b>146,389</b>
<b>Total Event Income</b>	<b>827,044</b>	<b>589,257</b>	<b>237,787</b>	<b>654,044</b>	<b>1,915,443</b>	<b>1,789,435</b>	<b>126,008</b>	<b>1,852,710</b>
<b>Other Operating Income</b>								
Luxury Box Agreements	1,071	1,333	(262)	1,217	4,589	5,332	(743)	5,619
Advertising	0	5,000	(5,000)	0	0	20,000	(20,000)	0
Other Income	7,168	1,333	5,835	2,661	14,411	5,332	9,079	6,998
<b>Total Other Operating Income</b>	<b>8,239</b>	<b>7,666</b>	<b>573</b>	<b>3,878</b>	<b>19,000</b>	<b>30,664</b>	<b>(11,664)</b>	<b>12,617</b>
<b>Adjusted Gross Income</b>	<b>835,283</b>	<b>596,923</b>	<b>238,360</b>	<b>657,922</b>	<b>1,934,443</b>	<b>1,820,099</b>	<b>114,344</b>	<b>1,865,327</b>
<b>Operating Expenses</b>								
Salaries and Wages	442,259	336,991	105,268	410,212	1,453,501	1,347,964	105,537	1,380,204
Payroll Taxes and Benefits	105,038	100,348	4,690	109,832	280,499	401,392	(120,893)	357,170
Labor Allocations to Events	(351,779)	(213,073)	(138,706)	(226,023)	(924,904)	(852,292)	(72,612)	(824,570)
<b>Net Salaries and Benefits</b>	<b>195,518</b>	<b>224,266</b>	<b>(28,748)</b>	<b>294,021</b>	<b>809,096</b>	<b>897,064</b>	<b>(87,968)</b>	<b>912,804</b>
Contracted Services	36,682	23,692	12,990	29,385	152,185	94,768	57,417	126,190
General and Administrative	13,123	31,944	(18,821)	20,947	138,028	127,776	10,252	135,020
Operations	19,221	12,196	7,025	3,900	53,577	48,784	4,793	76,280
Repair and Maintenance	63,408	47,100	16,308	84,759	206,503	188,400	18,103	223,687
Operational Supplies	27,455	23,342	4,113	39,955	95,871	93,368	2,503	107,893
Insurance	23,694	21,054	2,640	18,122	64,124	84,216	(20,092)	61,209
Utilities	127,490	146,483	(18,993)	127,054	524,809	585,932	(61,123)	524,259
SMG Management Fees	14,703	14,703	-	14,703	58,813	58,812	1	58,813
<b>Total Operating Expenses</b>	<b>521,294</b>	<b>544,780</b>	<b>(23,486)</b>	<b>632,846</b>	<b>2,103,006</b>	<b>2,179,120</b>	<b>(76,114)</b>	<b>2,226,155</b>
<b>Net Income(Loss) From Operati</b>	<b>313,989</b>	<b>52,143</b>	<b>261,846</b>	<b>25,076</b>	<b>(168,563)</b>	<b>(359,021)</b>	<b>190,458</b>	<b>(360,827)</b>
<b>Other Non-Operating Expenses</b>								
<b>Adjusted Net Income(Loss)</b>	<b>313,989</b>	<b>52,143</b>	<b>261,846</b>	<b>25,076</b>	<b>(168,563)</b>	<b>(359,021)</b>	<b>190,458</b>	<b>(360,827)</b>

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**SMG DeVos Place**  
**Grand Rapids - Kent County Convention/Arena Authority**  
**Year to Date Event Summary Report**  
**For the Four Months Ended October 31, 2018**

Event Type	Events/Days		Attendance		Total Event Income	
	Actual	Budget	Actual	Budget	Actual	Budget
Convention/Trade Shows	69	72	44,490	70,250	937,480	873,601
Consumer/Gated Shows	6	3	22,894	1,900	102,116	23,199
DeVos Performance Hall	37	26	40,352	37,530	377,701	399,975
Banquets	13	17	8,725	11,480	142,546	198,107
Meetings	29	34	8,120	8,345	328,830	292,969
Other	12	1	55,741	200	26,767	1,585
GRAND TOTALS	166	153	180,322	129,705	1,915,440	1,789,435

**As Percentage of Overall**

Convention/Trade Shows	41.57%	47.06%	24.67%	54.16%	48.94%	48.82%
Consumer/Gated Shows	3.61%	1.96%	12.70%	1.46%	5.33%	1.30%
Devos Performance Hall	22.29%	16.99%	22.38%	28.93%	19.72%	22.35%
Ballroom Exclusive	7.83%	11.11%	4.84%	8.85%	7.44%	11.07%
Meetings	17.47%	22.22%	4.50%	6.43%	17.17%	16.37%
Other	7.23%	0.65%	30.91%	0.15%	1.40%	0.09%

**DeVos Place  
Balance Sheet  
As of October 31, 2018**

**ASSETS**

**Current Assets**

Cash	1,956,392
Account Receivable	828,799
Prepaid Expenses	155,339

<b>Total Current Assets</b>		<b>\$2,940,529</b>
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**Total Assets**

**\$2,940,529**

**LIABILITIES AND EQUITY**

**Current Liabilities**

Accounts Payable	186,489
Accrued Expenses	443,387
Deferred Income	198,147
Advanced Ticket Sales & Deposits	2,418,931

<b>Total Current Liabilities</b>		<b>\$3,246,954</b>
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**Other Liabilities**

**Equity**

Funds Remitted to CAA	(550,961)
Expenses Paid Direct by CAA	463,378
Beginning Balance Equity	(50,275)
Current Year Equity	(168,567)

<b>Total Equity</b>		<b>(\$306,424)</b>
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<b>Total Liabilities and Equity</b>		<b>\$2,940,529</b>
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**SMG - DeVos Place**  
**Grand Rapids - Kent County Convention/Arena Authority**  
**Summary of Accounts Receivable**  
**As of October 31, 2018**

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Current - Under 30 Days	
Food & Beverage	161,121
Ticketing	162,166
Merchandise	1,679
Decorating	26,907
Audio/Visual	73,349
Van Andel Arena	(253,597)
Operating	530,874
 Over 30 Days	 114,532
 Over 60 Days	 11,768
 Over 90 Days	
 Total Accounts Receivable	 828,799

**SMG - Van Andel Arena & DeVos Place  
Grand Rapids - Kent County Convention/Arena Authority  
Management Fee Summary  
Fiscal Year Ending June 30, 2019**

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**MANAGEMENT FEE SUMMARY**

	Arena Estimate	DeVos Place Estimate	Total Estimate	FY 2018 Audited
Net Revenue above Expenses	1,606,970	51,829	1,658,799	2,267,359
Benchmark++			1,050,000	750,000
Excess	1,606,970	51,829	608,799	1,517,359

Incentive Fee Calculation (Only if above greater than zero)

	Arena Estimate	DeVos Place Estimate	Total Estimate	Total Audited
Base Fee	176,440	176,440	352,880	352,880
Incentive Fee				
Revenue	6,146,051	6,589,195	12,735,246	13,960,144
Benchmark Revenue	5,150,000	4,550,000	9,700,000	9,700,000
Revenue Excess	996,051	2,039,195	3,035,246	4,260,144
Incentive Fee **	115,802	237,078	352,880	352,880
Total SMG Management Fee	292,242	413,518	705,760	705,760

\*\* Incentive fee is 25% of the first \$500,000 in excess, 30% of remaining capped at base fee amount.

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Equal to \$850,000 and less than \$950,000 shall be paid at 50% of calculated fee.

Equal to \$950,000 and less than \$1,050,000 shall be paid at 75% of calculated fee.

Equal to \$1,050,000 and above shall be paid at 100% of calculated fee.