



CROWN COMPLEX

FAYETTEVILLE, NORTH CAROLINA

SPECIAL-PURPOSE FINANCIAL STATEMENTS

As of and for the Year Ended to June 30, 2015

And Report of Independent Auditor

CROWN COMPLEX
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Report of Independent Auditor

To Management and the Cumberland County Civic Center Commission
Crown Complex
Fayetteville, North Carolina

We have audited the accompanying special-purpose financial statements of Crown Complex (the "Complex"), which comprise the special-purpose statements of selected assets, liabilities, and excess as of June 30, 2015, and the special-purpose statements of selected revenues, expenses, and excess, and cash flows for the year then ended, and the related notes to 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 accounting described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special-purpose 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Complex'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 Complex'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 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 excess of the Complex as of June 30, 2015, and the selected revenues, expenses, and excess, and its cash flows for the year then ended, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

We draw attention to Note 1 of the special-purpose financial statements, which describes the basis of accounting. As described in Note 1, these special-purpose financial statements were prepared for the purpose of complying with Article 10 of the management agreement dated November 1, 2013, between the County of Cumberland, North Carolina and Global Spectrum, LP as discussed in Note 3, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter. Furthermore, the accompanying special-purpose financial statements are not intended to be a complete presentation of the financial position of the Crown Complex or the County of Cumberland, North Carolina, taken as a whole.

Restriction of Use

Our report is intended solely for the information and use of the Complex, Global Spectrum, LP, and the County of Cumberland, North Carolina, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Cherry Bekasert LLP". The signature is written in a cursive, flowing style.

Fayetteville, North Carolina
August 30, 2015

CROWN COMPLEX

SPECIAL-PURPOSE STATEMENT OF SELECTED ASSETS, LIABILITIES, AND EXCESS

JUNE 30, 2015

ASSETS

Current Assets:

Operating account	\$ 1,067,510
Event account	2,846,920
Box office change fund	<u>5,000</u>

Cash and Cash Equivalents	<u>3,919,430</u>
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Accounts receivable	287,461
Prepaid event expenses	108,344
Prepaid expenses	<u>25,708</u>

Total Assets	<u><u>\$ 4,340,943</u></u>
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LIABILITIES AND EXCESS

Current Liabilities:

Accounts payable trade	\$ 462,817
Event liabilities	52,962
Deferred ticket revenue	741,825

Total Current Liabilities	<u>1,257,604</u>
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Accrued Liabilities and Deferred Revenue:

County payable	2,200,289
Accrued liabilities	134,469
Deferred suite and signage revenue	<u>15,263</u>

Total Accrued Liabilities and Deferred Revenue	<u>2,350,021</u>
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Total Liabilities	<u>3,607,625</u>
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Excess	<u>733,318</u>
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Total Liabilities and Excess	<u><u>\$ 4,340,943</u></u>
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CROWN COMPLEX

SPECIAL-PURPOSE STATEMENT OF SELECTED REVENUES, EXPENSES, AND EXCESS

YEAR ENDED JUNE 30, 2015

Rental Income	\$ 6,135,445
Tenant Charges	<u>(5,250,910)</u>
Net rental income	884,535
Net service loss	<u>(299,093)</u>
Total Direct Event Income	585,442
Surcharge/Rebate/Preshow	400,725
Ancillary Income	<u>459,416</u>
Event Operating Income	<u>1,445,583</u>
Signage and Suites Income	145,929
Miscellaneous Income	<u>194,222</u>
Total Net Events Revenue	<u>1,785,734</u>
Indirect Expenses:	
Advertising	110,504
Armored car service	3,085
Background checks	5,120
Bank charges	10,226
Cleaning chemicals and supplies	86,659
Computer services	39,039
Contracted services	176,916
Customer relations	5,577
Dues	3,000
Employee relations	6,036
Equipment rental	35,209
Insurance	167,652
Landscaping	12,612
Janitorial	2,001
Licenses and permits	3,352
Management fee	97,056
Miscellaneous	26,553
Office supplies	5,525
Overnight/courier	2,400
Premium services	97
Printing and stationery	789
Professional development	3,570
Professional fees	58,837
Projects	143,848
Promotions and brochures	11,337

The accompanying notes to the special-purpose financial statements are an integral part of this statement.

CROWN COMPLEX**SPECIAL-PURPOSE STATEMENT OF SELECTED REVENUES, EXPENSES, AND EXCESS
(CONTINUED)***YEAR ENDED JUNE 30, 2015*

Repairs and maintenance	501,946
Reserve for bad debts	7,476
Subscriptions	4,732
Telephone	42,903
Travel and entertainment	20,831
Uniforms and laundry	11,453
Utilities	981,889
Salaries, wages, payroll taxes, retirement, and benefits	1,807,302
Total Indirect Expense	<u>4,395,532</u>
Net Operating Loss	<u>(2,609,798)</u>
Nonoperating Revenue (Expense):	
County of Cumberland, operating subsidy	4,736,894
Operational subsidy returned to County of Cumberland	<u>(2,200,289)</u>
Total Nonoperating Revenue	<u>2,536,605</u>
Deficit in revenues over expenses	(73,193)
Total Excess, Beginning of year	<u>806,511</u>
Total Excess, End of Year	<u><u>\$ 733,318</u></u>

CROWN COMPLEX
SPECIAL-PURPOSE STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

Cash flows from operating activities:

Cash receipts from customers	\$ 7,351,942
Cash paid for tenant charges	(5,550,003)
Cash paid to employees	(1,793,923)
Cash paid to suppliers and service providers	<u>(2,345,342)</u>

Net cash used in operating activities	<u>(2,337,326)</u>
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Cash flows from financing activities:

Operational subsidy returned to County of Cumberland	(1,671,308)
Funds received from County of Cumberland	<u>4,736,894</u>

Net cash provided by financing activities	<u>3,065,586</u>
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Net increase in cash and cash equivalents	728,260
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Cash and cash equivalents - beginning of year	<u>3,191,170</u>
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Cash and cash equivalents - end of year	<u><u>\$ 3,919,430</u></u>
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Reconciliation of net operating loss to net cash used in operating activities:

Net operating loss	\$ (2,609,798)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Increase in accounts receivable	(258,377)
Decrease in prepaid event expenses	109,343
Increase in prepaid expenses	(9,989)
Increase in accounts payable	87,221
Increase in event liabilities	51,988
Increase in advanced deposits	16,730
Increase in accrued expenses	<u>275,556</u>

Net cash used in operating activities	<u><u>\$ (2,337,326)</u></u>
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Non cash financing activities operation subsidy owed the County	<u><u>\$ 2,200,289</u></u>
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CROWN COMPLEX

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 1—Nature of organization

The Crown Complex (the “Complex”) is committed to providing the premier facility for all conventions, consumer shows, trade shows, banquets and meetings in the Fayetteville area. The Complex commenced operations in October 1997 as a premier full-service convention, exhibition, and cultural complex. The Complex features a 10,000 seat coliseum, an Expo center with up to 60,000 square foot, a 9,200 square foot Ballroom, a 2,400 seat performing arts theatre, and an 11,500 square foot arena.

The Complex is owned by the County of Cumberland, North Carolina (the “County”). The County has a management agreement with Global Spectrum, LP, dated November 1, 2013, to manage the operations of the Complex. The term of the current agreement will conclude November 1, 2018, but the County may terminate the agreement as of November 1, 2016, without cause.

Basis of Financial Statement Presentation - The accompanying special-purpose financial statements include only the operating accounts of the Complex as defined in the management agreement with Global Spectrum, LP. They do not include the building, furniture, and equipment of the Complex or the related depreciation of such assets or long-term debt and related interest expense. The accompanying special-purpose financial statements are prepared on the basis of accounting described in Article 10 of the management agreement dated November 1, 2013, between the County and Global Spectrum, LP, and include selected accruals consistent with the accrual basis of accounting, such as accounts receivable and accounts payable. Rental revenue is recognized after customers have used the facility for its intended purposes and after related event expenses and promoter fees have been deducted from the collection of ticket sales. Deferred revenues represent those funds received as deposits for future facility rentals, ticket sales for future events, and naming rights. These special-purpose financial statements do not include non-cash transactions between the County and the Complex.

The Complex receives funding from the County to defray the Complex's net cost of operations. Such funding is reflected as an operating subsidy in the special-purpose statement of revenues, expenses, and excess.

Note 2—Summary of significant accounting policies

Use of Estimates - The preparation of the special-purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the special-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with an original maturity of three months or less from the date of acquisition.

Accounts Receivable - Accounts receivable consist primarily of amounts owed for Complex events. Management provides for losses on uncollectible accounts receivable principally on the basis of information about specific customers with respect to their inability to make payments. At June 30, 2015, no allowance for uncollectible accounts was considered necessary by management.

Prepaid Event Expenses - All expenses, deposits, and payments to promoters related to future events are recorded in this account.

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

CROWN COMPLEX

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 2—Summary of significant accounting policies (continued)

Capital Expenditures - The County is solely responsible for all capital expenditures of the Complex; however, the County is not under any obligation to make any capital expenditures. Capital expenditures consist of any building additions, alterations, or improvements and purchases of additional or replacement furniture, machinery, or equipment, where the cost of such expenditure is greater than \$5,000 with a depreciable life in excess of five years.

Deferred Ticket Revenue - Deferred ticket revenue primarily consists of monies received in advance for Complex events. Revenue is recognized when the event has occurred, services have been performed, and the contract has been completed.

Revenue Recognition - The Complex recognizes revenue as it is earned upon completion of contracts. Rental revenue is recognized after customers have used the facility for its intended purposes and after related event expenses and promoter fees have been deducted from the collection of ticket sales.

Concentrations of Credit Risk - The Complex places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. During the year, the Complex from time to time may have had amounts on deposit in excess of the insured limits; however, management believes that such deposits pose no significant credit risk.

The Complex grants credit to its customers without requiring collateral. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers in the Complex's customer base.

Income Tax Status - The Complex is not subject to federal income tax because its operations fall under the tax exempt status of the County.

Presentation of Taxes - The state of North Carolina and cities within the state impose a sales tax on certain sales to non-exempt customers. The Complex collects that sales tax from customers and remits the entire amount to the applicable governmental entities. The Complex's accounting policy is to include the tax collected and remitted in revenue and expense.

Advertising Costs - Advertising costs are expensed as incurred. For the year ended June 30, 2015, the Complex incurred advertising costs of \$110,504.

Note 3—Management Agreement

Under the terms of the management agreement dated November 1, 2013, Global Spectrum, LP is responsible for the payment of all expenses related to the operation, maintenance, supervision, and management of the Complex from funds maintained in the Complex's Operating Account, which is a bank account maintained by both the Complex and the County that is funded by amounts generated by the operation of the Complex and amounts made available by the County. To ensure sufficient funds are available in the account, the County transfers quarterly to the account the budgeted or otherwise approved supplemental funding. For the year ended June 30, 2015, the County provided funds of \$4,736,894.

As of June 30, 2015, the Complex owed \$2,200,289 to the County. To determine the amount owed to the County, revenues earned by the Complex during the fiscal year are added to the total funding received from the County and actual expenses incurred by the Complex during the fiscal year and two months' worth of operating expenses are subtracted from this amount.

CROWN COMPLEX

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2015

Note 3—Management agreement (continued)

The County is responsible for maintenance on the facilities and purchasing or approving the purchase of furniture, fixtures, and equipment ("FF&E") for the Complex. The County retains ownership of all FF&E; therefore, no FF&E is reported in the Complex's special-purpose financial statements. The County may provide separate funding for FF&E. For the year ended June 30, 2015, the County did not provide separate funding specifically for FF&E.

During the year ended June 30, 2015, the County did provide funding for major repairs totaling approximately \$18,200 and utility reimbursements related to the Cooperative Extension offices of approximately \$94,500.

In accordance with the management agreement, the compensation payable to Global Spectrum, LP consists of a fixed management fee and an incentive fee.

Beginning November 1, 2013, the base annual fixed management fee is \$8,000 per month and is increased annually based on the percentage increase in the Consumer Price Index for All Urban Consumers for the South Region, as published by the U.S. Bureau of Labor Statistics for the preceding operating year. The annual increase in the fixed management fee shall not exceed 3.5% from one year to the next. For the year ended June 30, 2015, the fixed management fee was \$97,056.

The incentive fee was \$97,056 as of June 30, 2015 and is billed directly to the County.

Note 4—Future Events

The Complex has entered into various contracts for future events. Under these contracts, the counterparties are required to pay a deposit to reserve the Complex. For year ended June 30, 2015, total deposits paid were \$12,701, and per the Agreement, are maintained in the Operating Account, which is a bank account maintained by both the Complex and the County for such advanced deposits. At settlement of the corresponding event, the Complex recognizes the related revenue.

Note 5—Retirement plan

The Complex provides retirement benefits to its employees through a defined contribution plan covering all full-time employees after 90 days of employment and part-time employees with 1,000 hours of eligible experience. The Complex contributes 100 percent up to 5 percent of eligible compensation. These contributions are paid by Global Spectrum, LP and then the Complex reimburses Global Spectrum, LP for the total contribution paid for its employees. Contributions paid to Global Spectrum, LP for the plan during the year ended June 30, 2015, were \$26,223.

Note 6—Subsequent events

The Complex has evaluated subsequent events through August 30, 2015, which is the date the special-purpose financial statements were available to be issued.