GROSSINGER MOTORS ARENA
(AN ENTERPRISE FUND OF THE CITY OF BLOOMINGTON, ILLINOIS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

AS OF AND FOR THE YEAR ENDED APRIL 30, 2019

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Bloomington, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Grossinger Motors Arena, an enterprise fund of the City of Bloomington, as of and for the year ended April 30, 2019, and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 over financial reporting relevant to the Grossinger Motors Arena'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 Grossinger Motors Arena'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.

To the City Council
City of Bloomington, Illinois

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grossinger Motors Arena as of April 30, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Grossinger Motors Arena and do not purport to, and do not, present fairly the financial position of the City of Bloomington, as of April 30, 2019, and the changes in financial position, or cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019 on our consideration of the Grossinger Motors Arena's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Grossinger Motors Arena's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 14, 2019

GROSSINGER MOTORS ARENA
AN ENTERPRISE FUND OF THE CITY OF BLOOMINGTON, ILLINOIS
STATEMENT OF NET POSITION
AS OF APRIL 30, 2019

Assets:	
Current assets:	
Cash and investments	$ 2,166,440
Receivables, net of allowances for uncollectibles	133,157
Inventory	46,490
Prepaid items	22,248
Total current assets	2,368,335
Capital assets:	
Land	444,524
Construction in progress	806,552
Other depreciable capital assets, net of accumulated depreciation	22,129,795
Total capital assets, net of accumulated depreciation	23,380,871
Total assets	25,749,206
Deferred outflows of resources:	
Deferred outflows of resources related to pensions	26,848
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	552,716
Unearned revenue	747,263
Current portion of capital lease payable	266,985
Current portion of loans payable	60,000
Total current liabilities	1,626,964
Long-term liabilities:	
Capital lease payable, noncurrent portion	1,282,660
Loans payable, noncurrent portion	70,000
Net pension liability	45,340
Total long-term liabilities	1,398,000
Total liabilities	3,024,964
Deferred inflows of resources:	
Deferred inflows of resources related to pensions	4,351
Net Position:	
Net investment in capital assets	21,701,226
Unrestricted	1,045,513
Total net position	$ 22,746,739

See accompanying Notes to Financial Statements

GROSSINGER MOTORS ARENA
AN ENTERPRISE FUND OF THE CITY OF BLOOMINGTON, ILLINOIS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED APRIL 30, 2019

Operating revenues:	
Events	$ 515,955
Club seat rentals	1,956
Suite rentals	189,176
Concession and novelty revenue	640,002
Advertising and naming rights	395,669
Coliseum and box office rental	491,268
Total operating revenues	2,234,026
Operating expenses:	
Salaries and benefits	1,422,747
Office operations	43,238
Promoter expense	130,849
Travel and entertainment	11,258
Advertising	70,417
Utilities	321,746
Insurance	36,705
Repairs and maintenance	249,992
Operating supplies	5,851
Professional fees	380,175
Depreciation	1,167,871
Commissions	48,516
Other	1,358
Rental expense	2,037
Total operating expenses	3,892,760
Net operating loss	(1,658,734)
Nonoperating revenues (expenses):	
Home rule sales tax	1,396,768
Interest expense	(45,631)
Investment income (loss)	22,349
Miscellaneous revenues	7,152
Contributions to the City of Bloomington	(1,396,768)
Contributions from the City of Bloomington	1,332,980
Total nonoperating revenues (expenses)	1,316,850
Change in net position	(341,884)
Net position, beginning of year	23,088,623
Net position, end of year	$ 22,746,739

See accompanying Notes to Financial Statements

GROSSINGER MOTORS ARENA
AN ENTERPRISE FUND OF THE CITY OF BLOOMINGTON, ILLINOIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2019

Cash flows from operating activities:	
Received from customers	$ 2,551,314
Paid to suppliers for goods and services	(1,117,756)
Paid to employees	(1,422,857)
Other receipts	7,152
Net cash from operating activities	17,853
Cash flows from noncapital financing activities:	
Receipts of intergovernmental revenues	1,396,768
Contributions from the City of Bloomington	1,332,980
Contributions to the City of Bloomington	(1,396,768)
Net cash from noncapital financing activities	1,332,980
Cash flows from capital and related financing activities:	
Principal repayments on capital leases	(262,663)
Principal repayments on loans payable	(60,000)
Capital lease proceeds	31,274
Interest paid	(45,631)
Acquisition and construction of capital assets	(1,246,920)
Net cash from capital and related financing activities	(1,583,940)
Cash flows from investing activities	
Interest and dividends received	22,349
Net cash from investing activities	22,349
Net increase in cash and cash equivalents	(210,758)
Cash and cash equivalents, beginning of year	2,377,198
Cash and cash equivalents, end of year	$ 2,166,440

See accompanying Notes to Financial Statements

GROSSINGER MOTORS ARENA
AN ENTERPRISE FUND OF THE CITY OF BLOOMINGTON, ILLINOIS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2019

Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$	(1,658,734)
Nonoperating revenue		7,152
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities		
Depreciation		1,167,871
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		56,810
(Increase) decrease in prepaid items		89,368
(Increase) decrease in inventory		(4,205)
(Increase) decrease in deferred outflows related to pensions		(23,673)
Increase (decrease) in accounts payable		99,223
Increase (decrease) in unearned revenue		260,478
Increase (decrease) in deferred inflows related to pensions		(15,266)
Increase (decrease) in net pension liability		38,829
Net cash from operating activities	$	17,853

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Grossinger Motors Arena (the “Arena”) is an enterprise fund of the City of Bloomington, Illinois which provides for the promotion, operation and maintenance of the Arena. The Arena offers all types of entertainment venues including major concerts, trade shows, conventions, sporting events and civic events. The Arena is owned by the City of Bloomington, Illinois (the "City") and operated under a management agreement with VenuWorks, Inc.; it is a part of the City government and is not a separate legal entity or otherwise organized apart from the City. The financial statements contained herein present only the operations of the Arena and do not purport to, and do not, present the financial position, changes in financial position and cash flows, where applicable, of the City.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Arena engages only in business-type activities.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Event revenue is reported net of the expenses paid to entertainers and promoters. It includes revenue from events where the Arena participates on a percentage basis in the net revenues. Rental revenue earned from events is presented as a line item separate from event revenue on the statement of revenues, expenses and changes in fund net position.

Naming rights revenue is reported for an agreement the City entered into with a third party which gives the third party the "right" to name the Arena. The revenue is considered earned when the naming rights usage takes place.

The Arena is guaranteed a minimum of 40% of gross food and beverage sales after cost of goods sold. Revenue is recognized when the event has taken place and it is measurable.

Advertising and/or sponsorships are reported for agreements the Arena entered into with a third party which gives the third party the "right" to sponsor teams, the arena and/or specific events or allows the third party to advertise with the Arena’s signage opportunities. Most agreements are on a yearly basis and, as the third party receives the benefit over the entire year, revenue is recognized ratably over the term of the agreement.

Facility fee revenue is recognized when the event takes place. This fee is a part of the cost of the ticket. The amount varies by event.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Revenue Recognition (continued)

Suite rental revenue is billed on an annual basis. Revenue is recognized monthly as the suite is available for use by the customer.

Club memberships are billed on an annual basis. The membership includes early notification of events with the ability to purchase up to four tickets before the tickets are available to the general public, parking passes, early access to the Arena before games to eat in the restaurant, and occasional food and beverage discounts for selected events. As the membership benefits are earned by event and events run throughout the fiscal year, the revenue is earned ratably over the course of the fiscal year.

A disincentive fee is paid to the City by VenuWorks in the event that VenuWorks fails to meet budget for the year. The disincentive fee requires VenuWorks to reimburse any variable management fees it received during the year. The fee protects the City by ensuring VenuWorks puts forth a meaningful budget and works to meet budget each year. VenuWorks variable management fee includes a 5% commission on gross food and beverage and contractually obligated income streams secured by VenuWorks including advertising, sponsorship, pouring rights, and naming rights revenues. This revenue is experienced at year-end.

The Arena receives a portion of the City’s Home Rule Sales Tax. These revenues are a budgeted allocation that are recognized as received from the City.

All revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

Deposits and Investments

For purposes of reporting cash flows, the Arena considers all investments with a maturity of three months or less when purchased to be cash equivalents. All investments are reported at fair value.

Illinois Statutes authorize the Arena to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Funds Investment Pool.

The Arena utilizes the City of Bloomington’s investment policy. The policy contains for the following guidelines for allowable deposits and investments:

<u>Interest Rate Risk</u> – The policy limits its exposure by structuring the portfolio so that investments will have short term durations due to cash flow needs as well as avoiding the need to sell securities prior to maturity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Deposits and Investments (continued)

Credit Risk – The policy requires that US Government Agency securities have a rating of AAA, taxable municipal bonds have a rating of AA or higher or are insured to equate to a AAA rating so long as no more than 10% of the total portfolio is invested in taxable municipal bonds, and that commercial paper have a rating of A-1, P-1, F-1, or D-1 provided that no single investment in a commercial paper exceeds $2 million in face value with a maturity of no longer than 180 days.

Concentration of Credit Risk – The policy requires the portfolio to diversify in order to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific user, or a specific class of securities. The policy requires the portfolio maturities of securities be staggered to avoid undue concentration of assets in a specific maturity sector; maturities selected provide for stability of income and reasonable liquidity; and the average maturity of the portfolio shall never exceed one and one half years. With the exception of deposits with Illinois Funds, the Arena will not have more than 30% of its investible funds in any one institution or type of investment.

Custodial Credit Risk – Deposits – The policy limits the exposure to deposit custodial credit risk by requiring all deposits in excess of FDIC insurable limits to be secured with collateralization pledged by the applicable financial institution to the extent of 102% of the value of the deposit.

Custodial Credit Risk – Investments – The policy require all securities to be secured through third-party custody and safekeeping procedures. The investment policy limits investments with any one financial institution to 30% of available funds.

Accounts Receivable

The Arena states accounts receivable at the amounts billed to customers. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management’s best estimate of amounts that will not be collected. A receivable is considered past due if any portion of the balance is outstanding for more than 30 days.

Inventory

Inventories are generally used for food and beverage services. They are not for resale. They are valued at cost based on FIFO and charged to operation and maintenance expense when used.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Trade/In-Kind Agreements

As part of doing business, the Arena has entered into several trade/in-kind agreements. These agreements primarily provide advertising services to the third parties in exchange for services or goods provided by the third party to the Arena. The Arena recognizes revenue as services are provided to the third party and recognizes expenses as the Arena redeems the services or goods per the agreement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Capital Assets

Capital assets include land, building, and machinery and equipment. Capital assets are defined by the Arena as assets with an initial cost of more than $5,000 ($25,000 for building improvements) and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at their estimated fair value at the date of donation.

Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset is as follows:

Building	25 - 50 years
Machinery and equipment	3 - 20 years

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position/fund balance that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Unearned Revenue

Unearned revenue represents monies received for ticket sales, sponsorships and naming rights which have not yet been earned.

Long-Term Obligations

All long-term obligations are reported as liabilities and consist of capital leases and loans payable.

Equity Classifications

Equity is classified as net position and displayed in three components:

Net investment in capital assets – This represents the Arena’s total investment in capital assets, net of accumulated depreciation and related debt.

Restricted net position – Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (continued)

Equity Classifications (continued)

Unrestricted net position – Consists of resources derived from user fees, state appropriations, and certain taxes. These resources are used for transactions relating to the general operations of the Arena and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Arena first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

NOTE 2 – DEPOSITS AND INVESTMENTS

The Arena's deposits and investment as of April 30, 2019 were comprised of deposits with financial institutions with a carrying value of $935,605, cash on hand with a carrying value of $59,400, and deposits held by the City on-behalf of the Arena with a carrying value of $1,171,435.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a financial institution failure, the Arena's deposits may not be returned to the Arena. As of April 30, 2019, the Arena had total bank balances of $961,068, all of which are collateralized.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable, net of uncollectibles, as of April 30, 2019 is comprised of the following amounts:

Advertising and other	$ 133,157
Due from Central Illinois Arena Management, Inc.	274,309
Gross receivables	407,466
Less: Allowance for uncollectible	274,309
Net total accounts receivable	$ 133,157

NOTE 4 – CAPITAL ASSETS

A summary of capital assets as of April 30, 2019 is as follows:

	Balance April 30, 2018	Additions	Deletions	Balance April 30, 2019
Capital assets, not being depreciated:				
Land	$ 444,524	$ -	$ -	$ 444,524
Construction in progress	386,547	985,189	565,184	806,552
Total capital assets, not being depreciated	831,071	985,189	565,184	1,251,076
Capital assets, being depreciated:				
Building	22,682,443	-	-	22,682,443
Infrastructure	-	565,184	-	565,184
Machinery and equipment	10,524,124	223,283	104,048	10,643,359
Total capital assets, being depreciated	33,206,567	788,467	104,048	33,890,986
Less accumulated depreciation for:				
Building	(5,468,680)	(423,785)	-	(5,892,465)
Infrastructure	-	(23,314)	-	(23,314)
Machinery and equipment	(5,228,688)	(720,772)	(104,048)	(5,845,412)
Total accumulated depreciation	(10,697,368)	(1,167,871)	(104,048)	(11,761,191)
Total capital assets, being depreciated, net	22,509,199	(379,404)	-	22,129,795
Total capital assets, net	$ 23,340,270	$ 605,785	$ 565,184	$ 23,380,871

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended April 30, 2019, was as follows:

	Balance April 30, 2018	Increases	Decreases	Balance April 30, 2019	Amounts Due Within 1 Year
Capital lease payable	$ 1,781,034	$ 31,274	$ 262,663	$ 1,549,645	$ 266,985
Loans payable	190,000	-	60,000	130,000	60,000
Total long-term obligations	$ 1,971,034	$ 31,274	$ 322,663	$ 1,679,645	$ 326,985

Capital Lease Payable

On May 27, 2015, the City entered into a capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for semi-annual payments of principal and interest of $9,343 with an interest rate of 2.1% until November 22, 2019. Equipment under the capital lease carries a cost of $89,951 and accumulated depreciation of $52,601 as of April 30, 2019.

On July 22, 2016, the City entered into a capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for monthly payments of principal and interest of $5,213 with an interest rate of 2.15% until June 2022. Equipment under the capital lease carries a cost of $231,166 and accumulated depreciation of $42,380 as of April 30, 2019.

On July 22, 2016, the City entered into an additional capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for monthly payments of principal and interest of $14,628 with an interest rate of 2.75% until June 2027. Equipment under the capital lease carries a cost of $147,030 and accumulated depreciation of $75,966 as of April 30, 2019.

On October 13, 2017, the City entered into an additional capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for monthly payments of principal and interest of $1,761 with an interest rate of 2.591% until September 2022. Equipment under the capital lease carries a cost of $104,323 and accumulated depreciation of $19,995 as of April 30, 2019.

On October 13, 2017, the City entered into an additional capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for monthly payments of principal and interest of $1,813 with an interest rate of 3.197% until September 2027. Equipment under the capital lease carries a cost of $187,871 and accumulated depreciation of $26,615 as of April 30, 2019.

On December 3, 2018, the City entered into an additional capital lease agreement to finance the purchase of equipment for the Arena. The lease calls for monthly payments of principal and interest of $6,877 with an interest rate of 3.93% until November 2023. The equipment under the capital lease was not obtained by the City as of April 30, 2019.Equipment under the capital lease carries a cost of $31,274 and accumulated depreciation of $4,431 as of April 30, 2019.

NOTE 5 – LONG-TERM OBLIGATIONS (continued)

The future minimum lease obligations and the net present value on these minimum lease payments as of April 30, 2019, are as follows:

Years	Principal	Interest	Total
2020	$ 266,985	$ 39,542	$ 306,527
2021	255,260	32,582	287,842
2022	209,561	26,152	235,713
2023	192,432	20,532	212,964
2024	186,082	15,213	201,295
2025-2028	439,325	15,522	454,847
Totals	$ 1,549,645	$ 149,543	$ 1,699,188

Loans Payable

In April 2016, the City entered into a loan agreement with VenuWorks, the management company for the Arena, for equipment totaling $299,999. Payments are made monthly beginning on July 1, 2016 and ending on June 1, 2021.

Debt service requirements to maturity for loans payable are as follows:

Years	Principal	Interest	Total
2020	$ 60,000	$ -	$ 60,000
2021	60,000	-	60,000
2022	10,000	-	10,000
Totals	$ 130,000	$ -	$ 130,000

NOTE 6 – RISK MANAGEMENT

The Arena is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; employee health, and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage during the fiscal year or the previous two fiscal years.

In addition, the City of Bloomington maintains internal service funds for its self-insured general liability, property and worker's compensation insurance claims. Each participating fund (including the Arena) makes payments to the self-insurance fund for amounts which are determined based on historical claims experience.

NOTE 6 – RISK MANAGEMENT (continued)

The City self-insures a portion of its risks and purchases excess/stop loss insurance to protect against catastrophic loss. Current self-insured retentions are $125,000 per occurrence for general liability, $25,000 for property, $450,000 per occurrence for non-public safety worker's compensation and $550,000 for public safety workers compensation. The City has an aggregate retention of $590,000 for liability losses. The City has purchased commercial insurance for coverage in excess of self-insured retentions and for other risks of losses.

NOTE 7 – ACTIVITY WITH THE OTHER CITY OF BLOOMINGTON FUNDS

Contributions to or from the City of Bloomington are used to (1) move revenues from the fund that statute or budget requires them to collect to the fund that statute or budget requires to expend them or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During fiscal year ended April 30, 2019, the General Fund of the City transferred $1,332,980 to the Arena Fund for capital outlays, repairs and maintenance, and other operating costs, and the Arena transferred $1,396,768 to the 2004 Arena Bond Redemption Fund (a sub-fund of the Debt Service Fund) of the City.

NOTE 8 – DEVELOPMENT AND MANAGEMENT AGREEMENT

The City and VenuWorks, Inc. entered into an agreement for professional management services in April 2016. The terms of the agreement commenced on July 1, 2016 and expire on June 30, 2021, with an option to extend for an additional five-year renewal upon mutual agreement of the parties. The agreement requires VenuWorks to make a capital investment of $299,999 for the purchase of equipment and fixtures from the previous management company and the option to make an additional capital investment of $450,000 for the purchase of new equipment, furniture and fixtures for the Arena. These capital investments will be in the form of loans from Venuworks to the City, which will be paid back over a five-year term. Venuworks will receive a base management fee (increasing annually by CPI), 5% of gross food & beverage sales and 5% of gross sales from contractually obligation income (COI) streams, including advertising, sponsorship, pouring rights, and naming rights revenue. As of April 30, 2019, the Arena owes Venuworks $37,799.

NOTE 9 – EMPLOYEES' RETIREMENT SYSTEM

The Arena, as a fund of the City, contributes to a defined benefit pension plan, the Illinois Municipal Retirement Fund (IMRF), an agent-multiple-employer public employee retirement system. As the Arena made contributions during the fiscal year, a portion of the City's net pension liability and related deferred outflows of resources and deferred inflows of resources are allocated to the Arena. Complete information on the City's participation in IMRF can be found in the City of Bloomington's Comprehensive Annual Financial Report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Bloomington, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Grossinger Motors Arena, an enterprise fund of the City of Bloomington, Illinois, as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the Grossinger Motors Arena's basic financial statements, and have issued our report thereon dated October 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Grossinger Motors Arena's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Grossinger Motors Arena's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grossinger Motors Arena's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

To the City Council
City of Bloomington, Illinois

As part of obtaining reasonable assurance about whether the Grossinger Motors Arena's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Grossinger Motors Arena's Response to Finding

The Grossinger Motors Arena's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Grossinger Motors Arena's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
October 14, 2019

<u>2019-001</u>

Criteria:
A properly functioning internal control system must include segregation of duties. Auditing standards require the auditors to communicate weaknesses in the Arena's system of internal controls.

Condition:
A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. Due to the relatively small size of the Arena's finance office, we noted that there are several deficiencies related to proper segregation of duties. These deficiencies, and compensating controls implemented to mitigate resulting risks, include:

- Journal entries posted to the Arena's financial accounting software, including year-end accruals, are not reviewed and approved by someone other than the original preparer. As a compensating control, VenuWorks corporate office personnel review and approve monthly financial statements, bank statements, and bank reconciliations.

- The individual preparing bank reconciliations is not independent of the cash disbursement and cash receipts processes. As a compensating control, the Arena has three employees that are authorized signers so that the Finance and Human Resources Director does not have to sign checks, as well as VenuWorks corporate office personnel review and approve monthly financial statements and bank statements.

- Individuals with the ability to prepare purchase orders have check signing authority on the accounts payable account. As a compensating control, VenuWorks requires dual signatures on all checks.

- The individual responsible for entering event and concession revenues into the financial accounting software deposits cash receipts from events. As a compensating control, the Executive Director recounts the money and makes up the deposit. The Executive Director and the Finance and Human Resources Director both sign the deposit slip and the Executive Director will take it to the bank while the Finance and Human Resource Director records the deposit.

- The individual responsible for processing payroll has the ability to change timecard information in Novatime and it is not reviewed by an independent individual. As a compensating control, the Executive Director signs off on the payroll report.

- Arena did not consistently use purchase orders prior to purchasing goods and services. Not all annual vendor purchase orders specify a maximum amount.

The presence of the risks identified above expose the Arena to the possibility that errors or irregularities could occur as part of the financial process and not be detected by the City or Arena staff. Exposure to some of these deficiencies may be inherent due to the Arena's limited number of business office staff. In addition to the compensating controls in place, the Arena should review its operations and practices to ensure that segregation can be implemented where appropriate or implement further compensating controls to mitigate the risks caused by inadequate segregation of duties.

Cause:
Limitations in staffing at the Arena does not allow for proper segregation of duties.

Effect or Potential Effect:
A lack of segregation of duties or proper management oversight could result in material errors in key financial processes that lead to undetected material errors in the financial statements.

Management Responses:
Journal entries – Individual journal entries/accruals are not reviewed and approved; however, a compensating control exists through the review of monthly financial statements and an annual on-site internal review conducted by VenuWorks corporate office. VenuWorks corporate office also reviews balance sheet reconciliation spreadsheets on a monthly basis.

Bank reconciliations – VenuWorks provides a compensating control through the review of bank statements and reconciliations as part of the approval of monthly financials.

Cash disbursements – VenuWorks provides a compensating control by requiring two (2) signatures on all checks. The Executive Director reviews and approves all invoices for payment. This control mitigates the risk of a single person creating a PO, preparing and signing a check.

Event and concession revenue – VenuWorks agrees with this comment. In the future VenuWorks will have an individual, independent of the Finance and Food & Beverage Departments, prepare deposits for concession revenues. The Executive Director verifies event sales to cash collected and prepares deposit. Executive Director and Finance Director each sign the deposit slip and deposit bag. Deposits are logged. Executive Director deposits funds at bank.

NOVAtime – Time and attendance software was purchased through NOVAtime. Hourly employees record their time with a unique number. Department managers review, assign, modify (if necessary) and approve timecards of their staff. Director of Finance will ensure all timecards are approved and process the biweekly hours into a data file to send to Oasis (payroll processor). A summary report is also generated through NOVAtime and sent to Oasis as verification of the payroll. In the absence of Finance Director, the Executive Director would perform the necessary payroll responsibilities within NOVAtime. The Executive Director will approve bi-weekly payroll reports from Oasis.

Purchase orders – Department Manager or Coordinator will prepare a purchase order for potential purchase. If the request is under $1000, the Director who supervises the Manager may approve the purchase by signing purchase order. If the request exceeds $1000, the purchase requires approval of the Executive Director. If a Director is requesting the purchase, the Executive Director must approve. Once approval is received, purchase can be made and purchase orders are forwarded to the Finance department. When invoice is received it is compared and matched to the purchase order and prepared for payment. The Executive Director reviews and approves all invoices. For common recurring expenditures (food & beverage vendors, garbage services, pest control, etc.), an annual purchase order is prepared for the fiscal year which specifies a maximum total amount.