



Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General

oag.ri.gov

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December 4, 2017

Honorable Dominick J. Ruggiero
President of the Senate
Room 318, State House
Providence, Rhode Island, 02903

Dear Senate President Ruggiero:

In response to your letter dated November 1, 2017 requesting that the Office of the Auditor General review certain sensitive financial information regarding the Pawtucket Red Sox minor league baseball team (Team), I visited the administrative offices of the Team on November 1, 2017 and met with key Team management personnel and had opportunity to review certain financial information provided by the Team organization.

As you are aware, I was requested to sign a non-disclosure agreement as a condition of the meeting and my review of certain Team financial information. I signed said agreement on November 1, 2017 which delineates the parameters and limitations on permitted disclosures including this communication. In general, the non-disclosure agreement allows me to communicate my general impressions in a summary manner. This letter is prepared in keeping with your request and the disclosures permitted by that non-disclosure agreement.

The Team made their audited financial statements for the years ended December 31, 2016 and 2015 available to me as well as unaudited summary financial operating results for fiscal 2017 to date. They made other data available as well, most of which had been previously provided during legislative hearings or in response to requests emanating from those hearings. I had the opportunity to discuss and ask questions of key Team management personnel present at the meeting regarding the financial materials provided.

The following summarizes my general impressions regarding the materials made available for my review:

- The financial status of the Team organization, based on audited financial statements and unaudited fiscal 2017 year to date operating data, is stable. Operating revenues and expenses are materially consistent in a comparison of fiscal 2015 (since inception date of February 10), 2016 and 2017 (unaudited, year to date) information.

- The Independent Auditor's Report on the Team's financial statements for the year ended December 31, 2016 was unmodified. The Independent Auditor's Report on the financial statements for the year ended December 31, 2015 was qualified due to the auditor's inability to observe inventory at the inception date. This type of auditor qualification is not unusual on first-year audits where inventory is material to the determination of net income.
- Fiscal 2016 cash flows from operating activities were positive.
- Fiscal 2015, from date of inception (February 10, 2015) through December 31, 2015 and Fiscal 2016 operations resulted in net losses. A significant expense item included in the determination of the net loss in each of those years was the amortization of goodwill (a non-cash expense item). Goodwill is an intangible asset which resulted from the acquisition of the Team by the current owners. This intangible asset is being amortized (expensed) over a ten-year period as required by generally accepted accounting principles.
- Cash position was enhanced during fiscal 2017 by the admission of a new equity partner.
- The Team has certain long-term debt due in fiscal 2020 which it expects to refinance/restructure rather than fully retire at that time.
- The Team's audited financial statements for the year ended December 31, 2016 include disclosure of non-compliance with certain debt coverage ratios which was remedied in 2017 prior to issuance of the 2016 audited financial statements.
- The fiscal 2016 audited financial statements did not disclose the existence of significant contingent liabilities or uncertainties affecting the financial statements.
- The Team's management represented that their share of the proposed stadium costs (currently estimated at \$12 million plus construction cost overruns, if any) may be funded through borrowing, partner equity contributions, or a combination of both.
- Team management discussed the impact of expected attendance increases from a new stadium on operating results citing various league statistics, attendance increases at other clubs with newly constructed stadiums, the Team's historical attendance statistics and the dynamics of changes in certain operating costs as attendance increases. The Team's ability to meet (1) additional lease payments as proposed and (2) any borrowing costs incurred to finance the Team's share of stadium construction costs for the currently proposed construction of a new stadium in Pawtucket, Rhode Island, would be largely dependent upon the generation of additional revenues from increased attendance at games and the potential sale of "naming rights" under a multi-year agreement.

We did not perform an audit of the Team or their financial statements. My review was limited to the materials provided by the Team during the meeting on November 1, 2017. I performed no independent validation of the information shared during the meeting other than through inquiry of Team management present at the meeting. The information presented herein is based on my limited purpose review and

Honorable Dominick J. Ruggiero

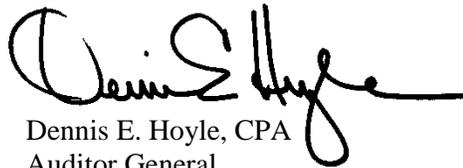
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professional assessment of the information made available to me. It should not be viewed as a guarantee or predictor of any future Team operating results, financial measures, or ability to undertake prospective financial obligations. It is intended for and should only be used by General Assembly members in their consideration of legislative bills proposing a financing plan for a new stadium in Pawtucket, Rhode Island.

My review was solely limited to the information provided by the Team with respect to Team financial operations and did not extend to any evaluation of the legislatively proposed financing plan for a new stadium in Pawtucket, Rhode Island.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis E. Hoyle". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Dennis E. Hoyle, CPA
Auditor General

C: Nicholas A. Mattiello, Speaker of the House