

LOUISIANA STADIUM AND EXPOSITION DISTRICT
MANAGEMENT FEE COMPUTATION SCHEDULES

STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
ISSUED DECEMBER 13, 2017

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

November 30, 2017

Independent Auditor's Report

**BOARD OF COMMISSIONERS OF THE
LOUISIANA STADIUM AND EXPOSITION DISTRICT
STATE OF LOUISIANA**
New Orleans, Louisiana

We have audited the accompanying schedules of management fee computations under the provisions of Article 4.1 of the Management Agreement between the State of Louisiana and SMG, Inc., dated June 13, 1977, as amended, for the years ended June 30, 2017, and June 30, 2016, and the related note.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedules in accordance with Article V, Section 5.1 of the Management Agreement between the State of Louisiana and SMG, Inc., dated June 13, 1977, as amended, which governs the contents of the schedules referred to in the first paragraph. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedules based on our audits. We conducted our audits of the schedules 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 schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, 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 schedules 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 schedules.

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 schedules referred to above present fairly, in all material respects, the management fee computation of the Louisiana Stadium and Exposition District for the years ended June 30, 2017, and June 30, 2016, as defined in the Management Agreement referred to in the first paragraph.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Louisiana Stadium and Exposition District as of and for the year ended June 30, 2017, and in our report thereon, dated November 30, 2017, we expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Board of Commissioners and management of SMG and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

CJH:NM:WDG:EFS:aa

LSED MFCS 2017

**LOUISIANA STADIUM AND EXPOSITION DISTRICT
STATE OF LOUISIANA**

**Schedules of Management Fee Computation
For the Years Ended June 30, 2017, and June 30, 2016**

	<u>2017</u>	<u>2016</u>
BASE FEE:		
Fixed Base Fee per Section 5.1.b of the Amended Agreement	\$1,000,000	\$1,000,000
Adjustments required by amended Management Agreement:		
Adjustment for increase in consumer price index - Section 5.1.d	300,044	287,440
Fee Increment Adjustment - Section 5.1.g	<u>(363,101)</u>	<u>(363,101)</u>
ADJUSTED BASE MANAGEMENT FEE	\$936,943	\$924,339
INCENTIVE FEE:		
Adjusted Net Income, as defined by the Management Agreement	34,231,607	32,588,932
Adjustments required by the Management Agreement:		
Revenue adjustment for Saints event revenue	(9,154,289)	(9,474,969)
Revenue adjustments for Saints suite revenue	(7,540,943)	(7,425,129)
Revenue adjustment for Pelicans event revenue	<u>(4,555,621)</u>	<u>(4,836,644)</u>
Net Income as adjusted per Management Agreement	12,980,754	10,852,190
INCENTIVE FEE - 10% of first \$10,000,000 and 5% of any additional Adjusted Net Income per Management Agreement, Section 5.1.b.3	1,149,038	1,042,610
BONUS:		
Percentage of Adjusted Base Fee per Management Agreement calculated in accordance with the provisions of Section 5.1.b.4	<u>187,389</u>	<u>184,887</u>
TOTAL MANAGEMENT FEE COMPUTATION, BEFORE CAP	<u>\$2,273,370</u>	<u>\$2,151,836</u>
MANAGEMENT FEE CAP CALCULATION:		
Management Fee Cap per Section 5.1.c of the Amended Agreement	\$1,500,000	\$1,500,000
Adjustments required by the Management Agreement:		
Adjustment for increase in consumer price index - Section 5.1.d	450,570	431,070
Fee Increment Adjustment - Section 5.1.g	<u>(363,101)</u>	<u>(363,101)</u>
ADJUSTED MANAGEMENT FEE CAP	1,587,469	1,567,969
MANAGEMENT FEE - SMG	<u>\$1,587,469</u>	<u>\$1,567,969</u>

The accompanying note is an integral part of this schedule.

NOTE TO THE SCHEDULES OF MANAGEMENT FEE COMPUTATION

Amended Management Agreement

Effective July 1, 1977, the State of Louisiana entered into a management agreement with HMC Management Corporation (which later changed its name to Facility Management of Louisiana, Inc.) (the Management Agreement) to manage the Louisiana Superdome. Effective June 19, 1998, the Management Agreement was amended to authorize the substitution of SMG Corporation (SMG) for Facility Management of Louisiana, Inc., as manager under the agreement and to include the Smoothie King Center among the properties to be managed by the manager under the Management Agreement. Effective July 1, 2003, the Management Agreement was amended, and the term of the Agreement was extended until June 30, 2012. By the terms of this amendment, the State was required to notify SMG by June 30, 2011, if it elected not to extend the Management Agreement for an additional five years. SMG was not notified by the State, and the Management Agreement was further extended for an additional five-year period ending June 30, 2017. On March 12, 2015, the seventh amendment to the Management Agreement extended the term of the agreement for an additional five years, ending June 30, 2022.

Pursuant to the amendment to the Management Agreement on July 1, 2003, the formula for compensation to SMG for its services changed to a combination of a base fee, incentive fee, and bonus fee, capped at \$1,500,000 subject to adjustments per the terms of the Management Agreement. The annual “base fee” is \$700,000 for the Mercedes-Benz Superdome and \$300,000 for the Smoothie King Center. The base fee is adjusted for the increase in the Consumer Price Index and by a fee increment adjustment, as provided by sections 5.1.d and 5.1.g, respectively. The “incentive fee,” as provided by Section 5.1.b.3, will consist of 10% of the first \$10,000,000 and 5% of any additional adjusted net income as defined by the Management Agreement for the Mercedes-Benz Superdome and Smoothie King Center, subject to limits established in the agreement. The “bonus fee” will be computed using a percentage of the combined base fees derived from comparing the actual financial performance of the two buildings to budgeted performance. For the years ended June 30, 2017, and 2016, the bonus fee was 20% of the base fee in accordance with Section 5.1.b.4 of the agreement. The combined fee paid to SMG for the year may not exceed \$1,500,000 as adjusted for the Consumer Price Index (Section 5.1.d) and a fee increment determined by comparing actual fees earned for fiscal years ended June 30, 2004, 2005, and 2006, to those that would have been earned for those years had the revised fee structure been in effect for those years (Section 5.1.g). For the years ended June 30, 2017, and June 30, 2016, the total management fee was \$1,587,469 and \$1,567,969, respectively.