

LOUISIANA STADIUM AND EXPOSITION DISTRICT
MANAGEMENT FEE COMPUTATION SCHEDULES
STATE OF LOUISIANA



FINANCIAL AUDIT
ISSUED NOVEMBER 26, 2008

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

October 24, 2008

Independent Auditor's Report

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

We have audited the basic financial statements of the Louisiana Stadium and Exposition District as of and for the years ended June 30, 2008 and June 30, 2007, and have issued our report thereon dated October 24, 2008. We have also audited the accompanying schedules of management fee computation, as listed in the foregoing table of contents, 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, 2008 and June 30, 2007. These schedules are the responsibility of the District's management. Our responsibility is to express an opinion on these schedules based on our audits.

We conducted our audits of these schedules 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 schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule's presentation. We believe that our audits provide a reasonable basis for our opinion.

We have been informed that Article V, Section 5.1 of the Management Agreement between the State of Louisiana and SMG, Inc., dated June 13, 1977, as amended, governs the contents of the schedules referred to in the first paragraph.

The accompanying schedules were prepared for the purpose of complying with the terms of the Management Agreement referred to in the first paragraph and are not intended to be a complete presentation of the financial position and activity of the Louisiana Stadium and Exposition District.

In our opinion, the schedules referred to previously present fairly, in all material respects, the management fee computation of the Louisiana Stadium and Exposition District for the years ended June 30, 2008 and June 30, 2007, as defined in the Management Agreement referred to in the first paragraph.

As discussed in the note to the schedules, beginning for the year ended June 30, 2007, the management fee for SMG, Inc., was computed in accordance with the sixth amendment to the management fee agreement dated July 1, 2003.

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,



Steve J. Theriot, CPA
Legislative Auditor

MH:JR:EFS:PEP:dl

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

**Schedules of Management Fee Computation
For the Years Ended June 30, 2008 and June 30, 2007**

	<u>2008</u>	<u>2007</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	134,200	104,500
Adjustment for manager's capital contribution - Section 5.1.e		200,000
Fee Increment Adjustment - Section 5.1.g	<u>(363,101)</u>	<u>(363,290)</u>
ADJUSTED BASE MANAGEMENT FEE	\$771,099	\$941,210
INCENTIVE FEE:		
Adjusted Net Income, as defined by the Management Agreement	24,174,513	17,658,719
Adjustments required by the Management Agreement:		
Revenue adjustment for Saints event revenue	(4,529,856)	(3,710,826)
Revenue adjustments for Saints suite revenue	(5,757,664)	(3,873,082)
Revenue adjustment for Hornets event revenue	<u>(1,818,663)</u>	<u>(279,321)</u>
Net Income as adjusted per Management Agreement	12,068,330	9,795,490
INCENTIVE FEE - 10% of first \$10,000,000 and 5% of any additional Adjusted Net Income per Management Agreement, Section 5.1.b.3	1,103,417	979,549
BONUS:		
20% of Adjusted Base Fee per Management Agreement calculated in accordance with the provisions of Section 5.1.b.4	<u>154,220</u>	<u>188,242</u>
TOTAL MANAGEMENT FEE COMPUTATION, BEFORE CAP	<u>\$2,028,736</u>	<u>\$2,109,001</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	201,300	156,750
Adjustment for manager's capital outstanding - Section 5.1.e		600,000
Fee Increment Adjustment - Section 5.1.g	<u>(363,101)</u>	<u>(363,290)</u>
ADJUSTED MANAGEMENT FEE CAP	1,338,199	1,893,460
MANAGEMENT FEE - SMG	<u>\$1,338,000</u>	<u>\$1,893,000</u>

The accompanying note is an integral part of this schedule.

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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 for Facility Management of Louisiana, Inc., as manager under the agreement and to include the Arena 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.

Pursuant to the amendment to the Management Agreement on July 1, 2003, the formula for compensation to SMG for its services changed for the year ended June 30, 2007, 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 Louisiana Superdome and \$300,000 for the New Orleans Arena. The base fee is adjusted for the increase in the Consumer Price Index, total manager’s capital provided, and by a fee increment adjustment, as provided by sections 5.1.d, 5.1.e, 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 Louisiana Superdome and New Orleans Arena, 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, 2008 and 2007, the bonus fee is 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), manager’s capital contributed by SMG (section 5.1.e), 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, 2008 and June 30, 2007, the management fee cap was rounded to the nearest \$1,000 and the total management fee was \$1,338,000 and \$1,893,000, respectively.

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