KPMG

The Global Leader

9

2508

99300174

99300174

2508

RIVERSIDE CENTROPLEX
BATON ROUGE, LOUISIANA

Special Purpose Financial Statements

December 31, 1997

With Independent Auditors' Report Thereon

RIVERSIDE CENTROPLEX
BATON ROUGE, LOUISIANA

Table of Contents

December 31, 1997

	Page
Independent Auditor's Report	2
Special Purpose Financial Statements:	
Statement of Assets and Liabilities	3
Statement of Revenues and Expenses	4
Statement of Cash Flows	5
Notes to Special Purpose Financial Statements	6

KPMG Peat Marwick LLP

Suite 3500 One Shell Square
New Orleans, LA 70139-3599

Independent Auditors' Report

To the City of Baton Rouge -
Parish of East Baton Rouge and
Spectacor Management Group:

We have audited the special purpose financial statements of assets and liabilities for the Riverside Centroplex as of December 31, 1997, and the related special purpose statements of revenues and expenses and cash flows for the year then ended. These statements are the responsibility of the Riverside Centroplex management. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the Management Agreement for the Riverside Centroplex as described in Note 2 and are not intended to be a complete presentation of the Riverside Centroplex's financial statements.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the assets and liabilities of the Riverside Centroplex as of December 31, 1997, and the related special purpose statements of revenues and expenses and cash flows for the year then ended on the basis of accounting described in note 2.

This report is intended solely for the information and use of the City of Baton Rouge - Parish of East Baton Rouge and should not be used for any other purpose.

KPMG Peat Marwick LLP

April 6, 1998

RIVERSIDE CENTROPLEX
Baton Rouge, Louisiana

Special Purpose Statement of Assets and Liabilities

December 31, 1997

Assets

Current assets:	
Cash (note 4)	$ 607,910
Accounts receivable, net of allowance for doubtful account of $15,000	382,154
Due from the City of Baton Rouge - Parish of East Baton Rouge - reimbursements	274,566
Prepaid expenses	27,065
Total assets	$ 1,291,695

Liabilities

Current liabilities:	
Accounts payable	237,729
Accrued expenses	106,767
Due to City of Baton Rouge - Parish of East Baton Rouge (note 3)	661,229
Deferred revenue	285,970
Total liabilities	$ 1,291,695

See accompanying notes to the special purpose financial statements.

RIVERSIDE CENTROPLEX
Baton Rouge, Louisiana

Special Purpose Statement of Revenues and Expenses

Year ended December 31, 1997

Operating revenues:	
Event income:	
Rental	$ 667,541
Service	379,632
Food and beverage	236,473
Novelty	22,379
Total event income	1,306,025
Non-event parking	71,997
Nonevent food and beverage	77,571
Advertising	177,255
Other	45,943
Total operating revenues	1,678,791
Operating expenses:	
Management company salaries and wages, including employee benefits	849,627
Utilities	501,166
Repairs and maintenance	35,563
Supplies and equipment, postage	119,477
Insurance	111,275
Professional, computer and contract services	62,683
Advertising and public relations	78,658
Total operating expenses	1,758,449
Net loss charged to funding from the City of Baton Rouge - Parish of East Baton Rouge	(79,658)
Funds from the City of Baton Rouge - Parish of East Baton Rouge:	
Beginning of year	225,862
Additional funds received during the year	515,025
End of year	$ 661,229

See accompanying notes to special purpose financial statements.

RIVERSIDE CENTROPLEX
Baton Rouge, Louisiana

Special Purpose Statement of Cash Flows

Year ended December 31, 1997

Cash flows from operating activities:	
Net loss charged to funds from City of Baton Rouge - Parish of East Baton Rouge	$ (79,658)
Adjustments to reconcile net loss charged to funds:	
Bad debt expense	15,000
Decrease in accounts receivable	34,373
Increase in due from City of Baton Rouge - Parish of East Baton Rouge	(162,349)
Increase in prepaid expense	(9,159)
Decrease in accounts payable	(79,853)
Increase in accrued expenses	22,207
Increase in deferred revenue	97,974
Net cash used in operating activities	(161,465)
Cash flows from financing activities - funding from the City of Baton Rouge - Parish of East Baton Rouge	515,025
Net increase in cash	353,560
Cash balance at beginning of year	254,350
Cash balance at end of year	$ 607,910

See accompanying notes to special purpose financial statements.

(1) Organization and Reporting Entity

The Riverside Centroplex is a three-venue complex consisting of an arena, exhibition hall and a performing arts theater (collectively, the "Facility") located in Baton Rouge, Louisiana. The Facility is owned by the City of Baton Rouge - Parish of East Baton Rouge (the "City") and operates as a facility for conventions and assembly events. The City entered into and executed a management agreement (the "Agreement") with the Spectacor Management Group ("SMG"), a Pennsylvania joint venture, to provide the City with management services. The management agreement commenced on April 1, 1996 and expires on March 31, 2001. Under the Agreement, SMG manages all of the activities and operations of the Facility including, but not limited to the rental of space, advertising, promotion, marketing and sales, event management, public relations, procurement, maintenance, security, custodial and support services including, but not limited to, food and beverage requirements for conferences, conventions, exhibitions, performance, special events and any and all events taking place at the Facility.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The special purpose financial statements have been prepared to reflect the financial position and the results of operations of the Facility pursuant to the Agreement between SMG and the City. Accordingly, the Statement of Assets and Liabilities does not include all of the assets and liabilities relating to the Facility, but include only those assets and liabilities of the Facility which are maintained by SMG pursuant to the Agreement. Assets and liabilities not reflected herein include, but are not limited to property, building, furniture and equipment and amounts due to third parties prior to execution of Agreement. The Statement of Revenues and Expenses do not include charges for depreciation in connection with the assets and liabilities, not reflected herein. All of the assets of the Facility are owned by the City and all of the liabilities are the obligations of the City.

The special purpose financial statements of the Facility maintained by SMG are prepared using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

Event rentals including advance deposits are recognized as revenue in the period in which the event is held. Annual box suite rentals are recognized in the period earned. Unearned receipts for event rentals and box suite rentals are included in deferred revenue.

(Continued)

(b) Estimates

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

(c) Cash and Cash Equivalents

For the statement of cash flows, cash equivalents include demand deposit accounts and short-term, highly liquid investments with original maturities of three months or less.

(d) Vacation and Sick Pay

Employees earn vacation leave in varying amounts according to years of service. Unused vacation can be carried over from one calendar year to the next, but is limited to the number of days earned during the prior year. An employee who separates from the entity will be compensated for earned unused vacation days up to a maximum of 18 days. Sick leave is accrued for full-time hourly employees up to a yearly maximum of six days. There is no provision for payment of unused sick-time at termination. The accrued liability at December 31, 1997 is included in accrued expenses and totaled $23,708.

(3) Transactions between the City and SMG

The continued operation of the Facility is dependent on funding from the City. The Agreement provides for the City to pay certain operational expenses.

Amounts provided by the City and charges against such amounts are reflected as follows:

	Amount provided by the City	Excess of operating expenses over operating revenues	Net amount owed to the City
Beginning of year	$ 539,707	(313,845)	225,862
Current year activities	515,025	(79,658)	435,367
End of year	$ 1,054,732	(393,503)	661,229

(Continued)

(4) Cash and Cash Equivalents

The Facility's checking accounts are maintained at a local financial institution and are collateralized by FDIC insurance and pledged securities and are collateralized by FDIC insurance and pledged securities held in the Facility's name by a third party. The actual bank balances of the cash and cash equivalents at December 31, 1997 was $623,031. The amounts were completely collateralized at December 31, 1997.

(5) SMG's Base and Incentive Fees

Pursuant to Section 4.1 of the Agreement, SMG is entitled to an annual base fee for each fiscal year in which SMG meets or exceeds the Benchmark established by the City as defined in the Agreement. The Base fee is subject to certain percentages and limitations, as set forth in the Agreement. Also, pursuant to Section 4.2 of the Agreement, SMG is entitled to an annual incentive fee for each fiscal year in which the net operating loss benchmark exceeds the Net Operating Loss Base Fee Reduction limited and the utility excess limit as specified in the Agreement. The base fee is calculated as follows for the nine months ended December 31, 1997:

Net operating loss, for the period April 1, 1997 to December 31, 1997 before operating funding		$(205,879)
Benchmark for 12 month period	$ 712,000	
Prorata portion of the Benchmark from April 1, 1997 - December 31, 1997		534,000
Net operating loss reduction		$ 328,121
Base fee payable to SMG from the City pursuant to Section 4.1 of the Agreement at 50%		$ 164,061

The base fee is payable directly to SMG by the City and is not considered an expense of the Facility as defined in the Agreement. In addition, at December 31, 1997, there is no incentive fee due SMG since the limits mentioned in the proceeding paragraph had not been exceeded.

(6) Employee Benefit Plans

SMG is a plan sponsor and participates in a 401(k) Savings and Retirement Plan (the Plan) with other related entities. All eligible employees, as defined in the Plan Document, may participate after one year of service. The benefit of investment gain and the risk of investment loss belong to the participant's accounts on the basis of the balances in those accounts. The amount contributed each year by the Facility is based on a matching formula defined in the Plan. The amount contributed to the Plan and recorded as expense for the year ended December 31, 1997 was $5,551.