

**BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA**

Special-Purpose Financial Statements

December 31, 2022 and 2021

With Independent Auditors' Report Thereon



**BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA**

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INDEPENDENT AUDITORS' REPORT

To the City of Baton Rouge -
Parish of East Baton Rouge (City-Parish Government) and
ASM Global Holdings, LLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial special-purpose statements of the Raising Canes River Center (River Center) operations, a component of an enterprise fund of the City-Parish Government of East Baton Rouge, as of and for the year ended December 31, 2022 and 2021, and the related notes to the special-purpose financial statements, which collectively comprise the River Center's special-purpose financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the River Center operations December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with the basis of accounting described in note 2 to financial statements.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the River Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Basis of Accounting

We draw attention to Note 2(a) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis accounting as described in the financial reporting provisions specified in the Management Agreement effective January 1, 2017, between the City-Parish Government of East Baton Rouge and ASM, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting is used in order to comply with the financial reporting provisions of the Management Agreement referred to above. As a result, these financial statements may not be suitable for any other purpose. Our opinion is not modified with respect to this matter.

Entity Reported

As discussed in Note 1, the financial statements present financial position, results of operations, and cash flows of the Raising Cane's River Center operations and do not purport to, and do not present fairly the financial position of the City-Parish Government of East Baton Rouge or the River Center enterprise fund of the City-Parish Government of East Baton Rouge, as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its 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.

Responsibilities of Management for the Financial Statements

Management, as appointed by ASM Global Holdings, LLC (ASM), is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of the Management Agreement effective January 1, 2017, between the City-Parish Government of East Baton Rouge (City-Parish) and ASM. Management, as appointed by ASM, is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the River Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 River Center's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the River Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control—related matters that we identified during the audit.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2023, on our consideration of the River Center’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 River Center’s internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of the City-Parish Government of East Baton Rouge and management of the River Center and ASM and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
July 11, 2023

BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA

Special-Purpose Statements of Assets and Liabilities

December 31, 2022 and 2021

| | ASSETS | |
|---|---------------------|---------------------|
| | <u>2022</u> | <u>2021</u> |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,627,421 | \$ 2,239,998 |
| Accounts receivable, net of allowance for doubtful accounts of \$30,000 | 566,787 | 662,212 |
| Due from the City of Baton Rouge - Parish of East Baton Rouge - reimbursements | 242,495 | 148,848 |
| Concessions inventory | 108,020 | 91,469 |
| Prepaid expenses | <u>165,822</u> | <u>53,621</u> |
| Total assets | <u>\$ 5,710,545</u> | <u>\$ 3,196,148</u> |

| | LIABILITIES | |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable | \$ 1,975,266 | \$ 806,676 |
| Accrued expenses | 189,087 | 222,310 |
| Unearned revenue | 2,351,454 | 1,637,217 |
| Due to City of Baton Rouge - Parish of East Baton Rouge | <u>1,194,738</u> | <u>529,945</u> |
| Total liabilities | <u>\$ 5,710,545</u> | <u>\$ 3,196,148</u> |

See accompanying notes to the special-purpose financial statements.

BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA

Special-Purpose Statements of Revenues and Expenses
Years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|--------------|--------------|
| Operating revenues: | | |
| Event income: | | |
| Rental income and fees | \$ 4,910,410 | \$ 2,343,970 |
| Less: direct expenses | 3,409,985 | 1,296,591 |
| Gross profit - events | 1,500,425 | 1,047,379 |
| Ancillary event income: | | |
| Advertising | 599,795 | 489,464 |
| Novelty Sales | 48,230 | 25,432 |
| Facility fees | 394,641 | 92,568 |
| Electricity sales | 5,816 | 18,917 |
| Ticket rebates | 676,427 | 204,387 |
| Other | 36,670 | 23,634 |
| Total ancillary event income | 1,761,579 | 854,402 |
| Total net event income | 3,262,004 | 1,901,781 |
| Food and beverage income: | | |
| Sales | 2,544,246 | 900,682 |
| Less: direct expenses | 1,734,032 | 689,460 |
| Gross profit - food and beverage | 810,214 | 211,222 |
| Total gross profit | 4,072,218 | 2,113,003 |
| Indirect operating expenses and other income: | | |
| Salaries and benefits | 1,713,864 | 1,202,928 |
| Utilities | 1,172,647 | 895,668 |
| Repairs, maintenance | 363,993 | 192,518 |
| Supplies, equipment and postage | 460,650 | 131,677 |
| Insurance | 218,208 | 114,725 |
| Professional, computer and contract services | 125,337 | 64,676 |
| Advertising, public relations, travel, and training | 149,108 | 36,480 |
| Bad debt expense | 13,684 | 10,000 |
| Other income | (135,849) | (90,176) |
| Total indirect operating expenses and other income: | 4,081,642 | 2,558,496 |
| Net loss | (9,424) | (445,493) |
| Funds due to the City of Baton Rouge - Parish of East Baton Rouge: | | |
| Beginning of year | 529,945 | (123,871) |
| Expenses paid by the City-Parish for the River Center | 1,337,457 | 909,459 |
| Cash advances | - | 800,000 |
| Naming rights revenue retained by City-Parish | (401,500) | (401,500) |
| Rental waivers | (261,740) | (208,650) |
| End of year | \$ 1,194,738 | \$ 529,945 |

See accompanying notes to special-purpose financial statements.

BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA

Special-Purpose Statements of Cash Flows
Years ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (9,424) | \$ (445,493) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Bad debt provision | 13,684 | 10,000 |
| Net change in operating assets and liabilities: | | |
| Decrease (increase) in receivables | 81,741 | (642,504) |
| Decrease (increase) in amounts due from City Parish | (93,647) | (111,857) |
| Decrease (increase) in inventory | (16,551) | (52,437) |
| Decrease (increase) in prepaid expenses | (112,201) | 67,793 |
| Increase (decrease) in accounts payable | 1,168,590 | 606,657 |
| Increase (decrease) in accrued expenses | (33,223) | 87,296 |
| Increase (decrease) increase in unearned revenue | 714,237 | 896,659 |
| | <u>1,713,206</u> | <u>416,114</u> |
| Cash flows from financing activities - Net funding from the City of Baton Rouge- Parish of East Baton Rouge | <u>674,217</u> | <u>1,099,309</u> |
| Net cash provided by financing activities | <u>674,217</u> | <u>1,099,309</u> |
| Net increase in cash and cash equivalents | 2,387,423 | 1,515,423 |
| Cash and cash equivalents at beginning of year | <u>2,239,998</u> | <u>724,575</u> |
| Cash and cash equivalents at end of year | <u>\$ 4,627,421</u> | <u>\$ 2,239,998</u> |

See accompanying notes to special-purpose financial statements.

**BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA**

Notes to Special-Purpose Financial Statements

(1) Organization and Reporting Entity

The Baton Rouge River Center (the Center) is a four-venue complex consisting of an arena, an exhibition hall, a convention center, and a performing arts theater located in Baton Rouge, Louisiana. The Center is owned by the City of Baton Rouge - Parish of East Baton Rouge (the “City” or the “City-Parish”) and operates as a facility for conventions and assembly events. Over time, the City has entered into a series of management agreements (the “Agreement”) with SMG, a Pennsylvania general partnership, to provide management and operational services. The most recent agreement between SMG and the City became effective January 1, 2017. Under the agreement, SMG manages all of the activities and operations of the Center 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, and food and beverage operations. On January 1, 2020, SMG began its first full year of operations pursuant to a business combination agreement with AEG Facilities to form AMS Global (ASM). All rights, obligations and terms of the existing management agreement with SMG continue under the newly formed entity.

(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 Center pursuant to the Agreement between ASM and the City. Accordingly, the Statement of Assets and Liabilities does not include all of the assets and liabilities relating to the Center, but includes only those assets and liabilities of the Center’s operations which are managed by ASM pursuant to the Agreement. Financial activity and balances not reflected herein include, but are not limited to, property, building, furniture and equipment, long-term debt amounts due to third parties prior to execution of the Agreements and grant revenues and expenses. The Statements of Revenues and Expenses are prepared on the accrual basis of accounting, that is, revenues are recognized when earned and expenses when incurred. Expenses do not, however, include charges for depreciation in connection with the assets, not reflected herein.

Event and Food and Beverage income is reported at gross, with corresponding direct expenses reported separately. Direct expenses consist of those paid to promoters, subcontractors, concessionaires, and employees for compensation attributable to the events or Food and Beverage operations. Event rentals are recognized as revenue in the period in which the event is held. Unearned receipts for event rentals, advance deposits, and advance ticket sales are included in unearned revenue.

(b) Estimates

The preparation of financial statements 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. The allowance for uncollectible accounts receivable is the most significant estimate that is subject to change.

(c) Cash and Cash Equivalents

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

**BATON ROUGE RIVER CENTER
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Notes to Special-Purpose Financial Statements

(2) Summary of Significant Accounting Policies (continued)

(d) Concessions inventory

Inventory consists of food, beverages, and other resale items and is carried at cost. Inventory is charged to cost of sales using the first-in, first out method.

(e) Vacation and Sick Pay

The Center is operated by ASM employees. ASM employees earn vacation leave in varying amounts according to years of service. During the year ended December 31, 2021, 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 ASM will be compensated for earned unused vacation days up to a maximum of 30 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 and therefore, no accrual. The accrued liability for vacation included in accrued expenses at December 31, 2021 was \$69,058. Beginning January 1, 2022, unused vacation cannot be carried over and is forfeited if not taken.

(f) Accounts receivable

Accounts receivable are recorded at the invoiced amount according to the event agreements net of an allowance for doubtful accounts. A general allowance for doubtful accounts receivable is based on management's assessment of the receivables, current economic conditions, experience and other relevant factors. The Center determines if receivables are past-due based on contractual terms of the agreement. No interest is charged on past-due accounts.

(3) Transactions between the City and the Center

The continued operation of the Center is dependent on funding from the City-Parish, and therefore the agreement between ASM and the City-Parish requires the City-Parish to pay certain operational expenses. Those expenses, totaling \$1,337,457 and \$909,459 for 2022 and 2021, respectively, are included within the accompanying financial statements. Primarily for convenience purposes, from time-to-time, the Center may front costs that the City-Parish has agreed to reimburse. The City-Parish may choose to absorb these costs by either directly reimbursing the Center or agreeing to reduce the amount the City-Parish is owed which is reported in the accompanying financial statements as "Due to City-Parish". Costs to be reimbursed are reported as amounts "Due from the City-Parish," which totaled \$242,495 and \$148,848 at December 31, 2022 and 2021, respectively.

Additionally, from time-time, the City-Parish will provide cash advances to the River Center. Advances in the amounts of \$0 and \$800,000 were made during 2022 and 2021, respectively.

The City also grants rental waivers to various organizations from time-to-time for events bringing a broader public benefit to Baton Rouge. Those waivers totaled \$261,740 and \$208,650 for 2022 and 2021, respectively, and are also accounted for as revenue and corresponding reduction of amount "Due to City-Parish" in the accompanying financial statements.

The River Center has sold naming rights to Raising Cane's Restaurants, LLC. Those rights call for \$401,500 per year through 2022, increasing to \$418,500 in 2023 through 2025, with an option to renew at a negotiated price. Such amounts are deposited into the City-Parish's bank account, yet the River Center operations is credited with revenue for securing these rights.

**BATON ROUGE RIVER CENTER
BATON ROUGE, LOUISIANA**

Notes to Special-Purpose Financial Statements

(4) Deposits in Financial Institutions

The Center's checking accounts are maintained at a local financial institution and are protected against custodial credit risk by FDIC insurance and through pledged securities owned by the financial institution held in the Center's name by a third party. The actual bank balances of the cash and cash equivalents at December 31, 2022 and 2021 were \$4,733,915 and \$2,259,528, respectively. No deposits were exposed to custodial credit risk at December 31, 2022. At December 31, 2021, the Center had \$328,498 of deposits which were exposed to custodial credit risk.

(5) ASM's Base and Incentive Fees

Effective January 1, 2017, ASM (as successor to SMG) and the City entered into a management agreement replacing an expired agreement and an existing Food and Beverage (F&B) operations agreement. The agreement term was five years, was renewed January 1, 2022 for another five years, and called for ASM to be paid a base compensation of \$250,000 annually (adjusted for inflation) as a management fee and an incentive management fee equal to twenty-five percent of improvement in net operating income in comparison to a net operating income benchmark as defined in the management agreement. The agreement allows for adjustment to be made to the incentive fee calculation as follows: 1.) Customer Satisfaction Survey Score (50%) and, 2.) Achievement of Annual Operating budget (50%). Also, SMG receives a 4% commission on the amount of F&B gross revenue during the year, without any budgetary or other benchmarks.

The management fees earned for 2022 and 2021 totaled \$577,362 and \$446,048, including \$296,763 and \$176,241 in incentive fees, respectively. The management fees are paid by the City-Parish and are therefore not reported as an expense in the accompanying statements of revenues and expenses. The F&B commission payable under the contract during the years ended 2022 and 2021 was \$107,254 and \$36,193, respectively. This commission is also paid by the City. However, unlike the incentive fee, the F&B commission expense is reported in the accompanying Statements of Revenues and Expenses.

(6) Employee Benefit Plans

ASM is a plan sponsor of 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 Center is based on a matching formula defined in the Plan. For 2022 and 2021, ASM matched 40% of the first 5% of annual salary contributed to the plan by the employee. The amount contributed to the Plan and recorded as an expense for the years ended December 31, 2022 and 2021 was \$46,016 and \$19,057, respectively.

(7) Litigation and Claims

In the ordinary course of business, the Center is a defendant in lawsuits and claims, both asserted and unasserted. Although the outcome of these lawsuits and certain claims is not presently determinable, the Center's legal counsel intends to vigorously defend these matters so that adverse effects to the Center are minimized. For most of these matters, the resolution will not have a material adverse effect on the financial condition of the Center.

INDEPENDENT AUDITORS' 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*

To the City of Baton Rouge -
Parish of East Baton Rouge and
ASM Global (successor to SMG):

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 special-purpose financial statements of the Raising Canes River Center (the River Center), as of and for the year ended December 31, 2022 and the related notes to the special-purpose financial statements, and have issued our report thereon dated July 11, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the special-purpose financial statements, we considered the River Center'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 opinions on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the River Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the River Center'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the River Center's special-purpose 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*.



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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
July 11, 2023