

**MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.**

**SPECIAL PURPOSE FINANCIAL REPORT**

September 30, 2018



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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners of  
the City of Miami Beach, Florida

We have audited the accompanying special-purpose statement of assets, liabilities and control of the Miami Beach Convention Center, as managed by Global Spectrum, L.P. ("GS") as of September 30, 2018, and the related special-purpose statements of revenue and expenses and cash flows for the year then ended, and the related notes to the special-purpose financial statements.

### **Management's Responsibility for the Special Purpose Financial Statements**

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the financial reporting provisions of the Management Services Agreement with GS dated October 7, 2013, amended as of December 8, 2015. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these special-purpose financial statements based on our audit. We conducted our audit 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 special-purpose financial statements are free from material misstatement.

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

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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 special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and control of Miami Beach Convention Center, as managed by Global Spectrum, L.P., as of September 30, 2018 and the revenues, expenses and cash flows for the year then ended, in accordance with the financial reporting provisions of the Management Services Agreement with GS dated October 7, 2013, amended as of December 8, 2015.

### **Basis of Accounting**

We draw attention to Note 2 of the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared by the City of Miami Beach on the basis of the financial reporting provisions of the Management Services Agreement with GS dated October 7, 2013, amended as of December 8, 2015, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the agreement referred to above. Our opinion is not modified with respect to this matter.

### **Restriction on Use**

This report is intended solely for the information and use of the Honorable Mayor, members of the City Commission, management of the City of Miami Beach, Florida and the management of Global Spectrum, L.P., and is not intended to be and should not be used by anyone other than the specified parties.

  
Crowe LLP

Miami, Florida  
December 21, 2018

MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES AND CONTROL  
September 30, 2018

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**ASSETS**

Cash	\$ 76,517
Restricted cash	1,952,050
Accounts receivable	872,648
Due from City of Miami Beach	423,683
Prepaid expenses	<u>40,487</u>
 Total assets	 <u>\$ 3,365,385</u>

**LIABILITIES AND CONTROL**

Accounts payable	\$ 329,222
Accrued expenses	725,970
Unearned cancellation fees	994,905
Deposits	<u>1,658,536</u>
Total liabilities	3,708,633
 Control	 <u>(343,248)</u>
 Total liabilities and control	 <u>\$ 3,365,385</u>

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The accompanying notes are an integral part of these financial statements.

MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSES  
Year Ended September 30, 2018

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**Revenue**

Rent	\$ 1,034,118
Ancillary	2,287,895
Service	2,475,294
Other	<u>101,160</u>
Total revenue	<u>5,898,467</u>

**Expenses**

Ancillary	1,825,991
Service	2,997
Salaries and benefits	3,648,984
Utilities	58,241
Repairs and maintenance	606,265
Insurance	1,637,473
Capital expenses	179,797
Other	<u>1,019,852</u>
Total expenses	<u>11,029,600</u>

Excess of expense over revenue, before other income (5,133,133)

Other income – interest 4,421

**Excess of expense over revenue and other income** \$ (5,126,712)

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The accompanying notes are an integral part of these financial statements.

MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
SPECIAL PURPOSE STATEMENT OF CASH FLOWS  
Year Ended September 30, 2018

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<b>Cash flows from operating activities</b>	
Excess of expenses over revenue, before other income	\$ (5,131,133)
Adjustment to reconcile excess of expenses over revenue before other income to net cash used in operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(593,628)
Decrease in prepaid expenses	2,575
Increase in account payable and accrued expenses	510,685
Increase in deposits	<u>1,739,283</u>
Net cash used in operating activities	<u>(3,472,218)</u>
<b>Cash flows from non-capital financial activities</b>	
Contribution received from the City	4,496,855
Cash distributions to the City	<u>(79,031)</u>
Net cash provided by non-capital financing activities	<u>4,417,824</u>
<b>Cash flows from investing activities</b>	
Interest on investments	<u>4,421</u>
Net cash provided by investing activities	<u>4,421</u>
Net increase in cash	950,027
Cash, beginning balance	<u>1,078,540</u>
Cash, ending balance	<u>\$ 2,028,567</u>

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The accompanying notes are an integral part of these financial statements.

MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS  
Year Ended September 30, 2018

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**NOTE 1 - NATURE OF ORGANIZATION**

On September 10, 2008, the Mayor and Commission of the City of Miami Beach, Florida (the "City"), approved and authorized entering into a three-year Management Services Agreement (the "Agreement") with Global Spectrum, L.P. ("GS") a Pennsylvania limited partnership, commencing on October 1, 2008 and expiring on September 30, 2011, to manage the operations of the Miami Beach Convention Center (the "Facility"), which is owned by the City. This Agreement has two optional one-year renewal terms. Under the Agreement, GS acts as the sole managing agent to promote, manage and maintain the Facility pursuant to all applicable laws and ordinances.

The original contract expired in September 2011 the City renewed the agreement for two years expiring on September 30, 2013.

On October 7, 2013 Global Spectrum, L.P. and the City executed a new three-year Management Services Agreement commencing on October 1, 2013 and expiring September 30, 2016. The agreement has two optional one year renewal terms.

In an amendment (Amendment No. 1) signed December 8, 2015, the Mayor and the City Commission of the City of Miami Beach authorized the City Manager to exercise two (2) consecutive one (1) year renewal terms, commencing October 1, 2016 and ending on September 30, 2018, and approved an additional two (2) years to the Agreement between the City of Miami Beach and Global Spectrum, L.P., commencing October 1, 2018 and ending September 30, 2020.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The special-purpose financial statements of the Facility as managed by Global Spectrum, L.P. have been prepared in accordance with the Agreement as disclosed below. This summary of significant accounting policies is presented to assist the reader in interpreting the special-purpose financial statements. These policies are considered essential and should be read in conjunction with the special-purpose financial statements.

Basis of Accounting and Financial Statement Presentation: The special-purpose financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, except as disclosed below. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The special-purpose financial statements have been prepared pursuant to the provisions of the Agreement. Accordingly, the statement of assets and liabilities do not include all of the assets and liabilities of the Facilities, but only those assets and liabilities recorded by the City, which are managed by Global Spectrum, L.P. Assets and liabilities not reflected herein may include, but are not limited to, property and equipment. In addition, the statement of revenue and expenses does not include charges for depreciation in connection with property and equipment, certain internal charges and management fees which are incurred and reported by the City and transactions with the City are accounted for within the control account. The statement of cash flows are presented using the indirect method.

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MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS  
Year Ended September 30, 2018

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts receivable are recorded at the invoiced amount and do not bear interest. An allowance for doubtful accounts has not been established as management believes that all amounts are collectible.

Revenue Recognition: Rental revenue is recognized when the related event is staged. Rental payments received in advance are deferred until earned. The rental charges for the Miami Beach Convention Center are based on square footage with rates approved by the City.

Revenues are reported gross, including but not limited to all third party and commissionable revenues. The Miami Beach Convention Center distinguishes between ancillary and service revenues. Ancillary revenue is recognized when earned and is comprised of income generated from food and beverage and audio visual services provided during an event.

Service revenue is recognized when earned and is comprised of stagehand, security, electrical, telephone, internet services and other event related revenue provided during an event.

Use of Estimates: The preparation of special-purpose financial statements in accordance with the Management Services Agreement, which are prepared utilizing accounting principles generally accepted in the United States of America, 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 special-purpose financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates.

**NOTE 3 - CASH**

The Convention Center's cash of \$2,028,567 consists of demand deposits. These accounts are not subject to interest rate risks, credit risks or concentration of credit risks. To mitigate custodial credit risk, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under the Florida Statutes Chapter 280, Florida Security for Public Deposits Act, the State Treasurer requires all qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral equal to 50% to 125% of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, United States government and agency securities, state of municipality government dept., or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280, Florida Statutes. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

**NOTE 4 - DEPOSITS**

Deposits represent amounts paid in advance by promoters of events to be held at the Facilities. Cash received from deposits is included in the special purpose statement of assets, liabilities and control as restricted cash. The deposits are applied to the balance owed by the promoters for the respective event and recognized when the event is staged. The advanced deposits for 2018 amounted to approximately \$1,659,000.

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MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS  
Year Ended September 30, 2018

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**NOTE 5 – UNEARNED CANCELLATION FEES**

Unearned cancellation fees represent fees paid by sponsors for cancelling an event at the Convention Center. The cancellation fees will be returned to the sponsor if the Convention Center is able to host another event in place of the cancelled event. The cancellation fees will be considered earned revenue at the date of the originally scheduled and cancelled event, if the Convention Center is unable to host another event in its scheduled date. As of September 30, 2018, approximately \$700,000 of cancellation fees were included in account receivable. Approximately \$295,000 of these fees were collected in fiscal year 2018 and are included in restricted cash.

**NOTE 6 - DUE TO CITY**

There are no amounts due to the City of Miami Beach at September 30, 2018.

**NOTE 7 - CONTROL ACCOUNT**

Activity in the control account for the year ended September 30, 2018 is as follows:

Balance, beginning of year	\$ 365,640
Net loss	(5,126,713)
Contributions received from the City	4,496,856
Cash distributions to the City	<u>(79,031)</u>
Balance, end of year	<u>\$ (343,248)</u>

Included in the contributions received from the City is \$423,683 due from the City at September 30, 2018.

In accordance with the Agreement, at the end of each month the total of the Facility's operating cash accounts is quantified. If the total is greater than \$500,000, the amount in excess of \$500,000 is paid to the City. If the total is less than \$500,000, the City will contribute an amount to bring the accounts up to \$500,000.

**NOTE 8 - MANAGEMENT AGREEMENT AND FEES**

Pursuant to the Agreement, the City will pay GS a fixed fee of \$254,880 adjusted upward annually by the percentage change in the consumer price index ("CPI"), not to exceed 3% in any one year. In addition, GS will be entitled to an annual incentive fee during the term of this Agreement, in an escalating amount equal to the management fee. The incentive fee is based on the following categories:

Customer Service - The City shall award GS up to 30 percentage points for customer service.

Financial Performance - The City shall award GS up to 50 percentage points based on financial performance.

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MIAMI BEACH CONVENTION CENTER  
AS MANAGED BY GLOBAL SPECTRUM, L.P.  
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS  
Year Ended September 30, 2018

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**NOTE 8 - MANAGEMENT AGREEMENT AND FEES (continued)**

Maintenance and Improvement of Facility and its Capital Equipment - The City shall award GS up to 15 percentage points for this category.

Discretionary - The City shall award GS 5 percentage points at its discretion.

The fixed rate and incentive fees to be paid to GS by the City are not included in the special purpose statement of revenue and expenses.

**NOTE 9 - SUBSEQUENT EVENTS**

Convention Center Renovation: On October 21, 2015 the City of Miami Beach Commissioners unanimously approved a \$615 million renovation project for the Miami Beach Convention Center. The construction for the renovation began after the Art Basel event in December 2015, and completion of the renovation project is expected in early 2019.

In an amendment (Amendment No. 2) signed October 15, 2018, the Mayor and the City Commission of the City of Miami Beach authorized the City Manager to extend the term of the Agreement between the City of Miami Beach and Global Spectrum, L.P. for an additional 2 year period (the 2020 Renewal Term) with such renewal terms commencing on October 1, 2020 and ending on September 30, 2022.