

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014 on our consideration of the 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 Center's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA

August 28, 2014

Management's Discussion and Analysis

DCU CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

This section of the Center's annual financial report presents a discussion and analysis of the Center's financial activities during the fiscal year ended June 30, 2014 to assist readers of the financial statements in understanding the financial activities of the Center. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The assets of the Center exceeded its liabilities (i.e., net position) at the close of fiscal year 2014 by \$262,431.
- Operating income of the Center was \$488,098 for the fiscal year ended June 30, 2014.

Overview of the Financial Statements

The City, acting through the Worcester Civic Center Commission, has a management services agreement (management agreement) with SMG. These financial statements report the financial activities of the Center as maintained by SMG.

The financial statements do not reflect any assets, liabilities, net position, revenues and expenses under control of the City as these items are reflected only on the City's financial statements.

This discussion and analysis is intended to serve as an introduction to the Center's financial statements. The Center's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains supplementary information in addition to the financial statements themselves.

Financial Statements

The statement of net position presents information of the Center's assets, liabilities and deferred inflows/outflows of resources (as maintained by SMG), with the difference reported as net position. The management agreement between the City and SMG requires surplus distributions be made to the City unless there are projected cash flow shortfalls. Therefore, increases and decreases to net position over time is reflective of whether surplus distributions have been made or have been withheld for cash flow purposes.

The statement of revenues, expenses and changes in net position presents information showing how the Center's net position changed during fiscal 2014. All changes in net position are reported as soon as the underlying event causing the change takes place. Therefore, all of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position regardless of when cash is received or paid.

The statement of cash flows presents information showing how changes in balance sheet accounts and income affect cash and cash equivalents.

The financial statements can be found on pages 12-14.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

The notes to the financial statements can be found on pages 15 through 19.

DCU CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Supplementary Information

In addition to the financial statements and accompanying notes, this report also presents supplementary information related to management fees.

The supplementary information can be located on pages 22 and 23.

Financial Analysis

The following tables present current year and prior year data on the financial statements. As noted earlier, net position may serve as a useful indicator of financial position. In the Center's case, assets exceeded liabilities by \$262,431 at the close of the most recent fiscal year and is summarized as follows:

	<u>2014</u>	<u>2013</u>
Current assets.....	\$ 1,798,356	\$ 1,395,920
Noncurrent assets.....	<u>42,389</u>	<u>36,500</u>
Total assets.....	<u>1,840,745</u>	<u>1,432,420</u>
Current liabilities.....	1,535,925	1,377,072
Noncurrent liabilities.....	<u>42,389</u>	<u>36,500</u>
Total liabilities.....	<u>1,578,314</u>	<u>1,413,572</u>
Net position.....	<u>\$ 262,431</u>	<u>\$ 18,848</u>

The Center's total net position increased \$243,583 during the most recent fiscal year and is summarized as follows:

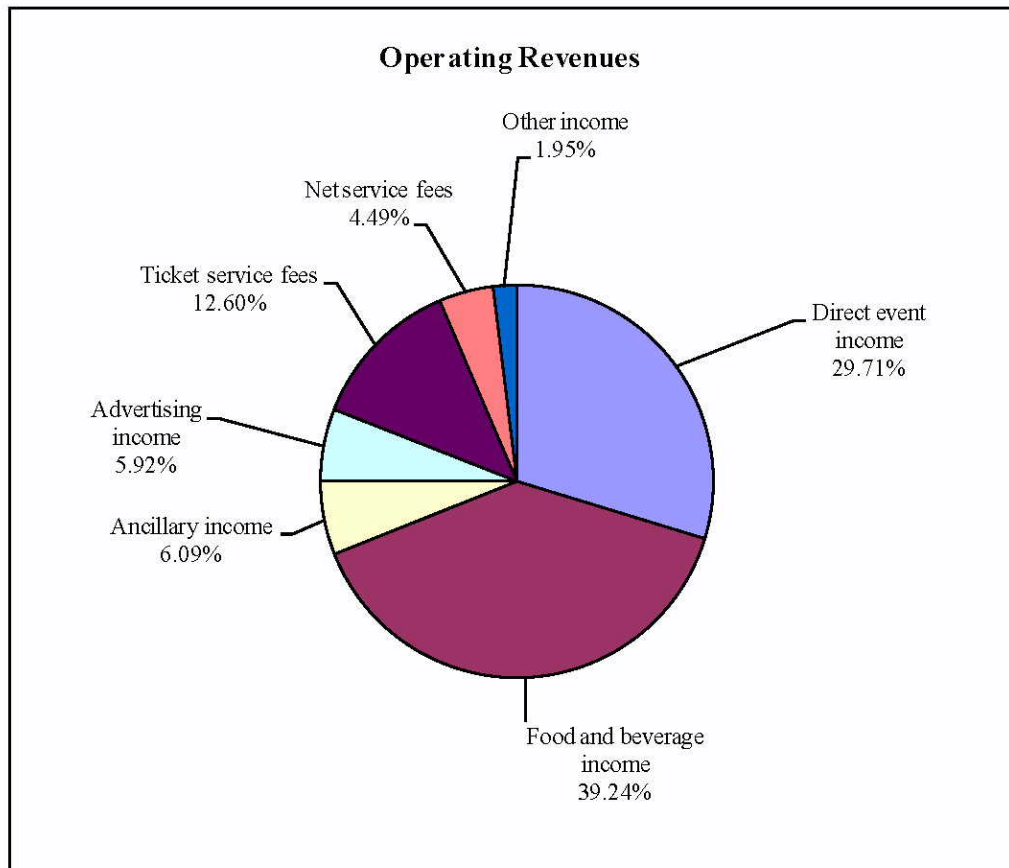
	<u>2014</u>	<u>2013</u>
Operating revenues.....	\$ 5,786,178	\$ 5,204,387
Operating expenses.....	<u>5,298,080</u>	<u>4,868,907</u>
Operating income.....	488,098	335,480
Nonoperating expenses (surplus distribution to City).....	<u>(244,515)</u>	<u>(335,480)</u>
Change in net position.....	243,583	-
Net position - beginning.....	<u>18,848</u>	<u>18,848</u>
Net position - ending.....	<u>\$ 262,431</u>	<u>\$ 18,848</u>

DCU CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Operating Revenues

Total operating revenues were \$5,786,178, which was a \$581,791 or 11.2% increase from the previous fiscal year. Increases to food and beverage income (\$271,160 or 13.6%) and service fees (\$220,105 or 28.6%) were primarily caused by an increase in arena events, including highly attended concerts by popular artists such as Pearl Jam and Phish. Other operating revenues were generally consistent with the prior fiscal year.

Operating Revenues by Source



Operating Expenses

Total operating expenses were \$5,298,080, which was a \$429,173 or 8.8% increase from the previous fiscal year. Salaries, wages and payroll taxes increased \$162,862 or 6.0%. This is the result of normal wage increases and additional temporary staffing to accommodate the increased arena events. Utilities expenses increased \$136,352 or 16.4%. This is the result of several factors, including increased usage for gas (arena and convention center) and electric (convention center), attributed to an abnormally cold and stormy winter and increased number of events. In addition, there was an increase in electricity rates in fiscal year 2014 (which had decreased in fiscal year 2013 compared to fiscal year 2012). Lastly, fiscal year 2013 utilities expenses were lower than usual due to the closing of the arena for renovations during May and June of 2013. All other operating expenses were generally consistent with the prior fiscal year.

DCU CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014

Requests for Information

This financial report is designed to provide a general overview of the Center's finances for interested parties. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City of Worcester's Finance Director, City Hall, Worcester, Massachusetts 01608.

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Financial Statements

THE DCU CENTER
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

Current:

Cash and cash equivalents.....	\$	18,848
Restricted cash and cash equivalents.....		1,253,705
Account receivables, net of allowance for uncollectibles of \$28,008.....		411,538
Prepaid expenses.....		25,318
Inventory.....		88,947
		<u>1,798,356</u>
Total current assets.....		<u>1,798,356</u>

Noncurrent:

Restricted cash and cash equivalents.....		42,389
		<u>42,389</u>
Total assets.....		<u>1,840,745</u>

LIABILITIES

Current:

Accounts payable.....		297,488
Accrued expenses.....		435,619
Due to City of Worcester.....		40,025
Advance deposits and ticket sales.....		556,737
Unearned revenue.....		206,056
		<u>206,056</u>
Total current liabilities.....		<u>1,535,925</u>

Noncurrent:

Advance deposits and ticket sales.....		42,389
		<u>42,389</u>
Total liabilities.....		<u>1,578,314</u>

NET POSITION

Unrestricted.....	\$	<u>262,431</u>
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The accompanying notes are an integral part of the financial statements.

THE DCU CENTER
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES

Direct event income.....	\$ 1,719,248
Food and beverage income.....	2,270,495
Ancillary income.....	352,333
Advertising income.....	342,521
Ticket service fees.....	729,262
Net service fees.....	259,662
Other income.....	112,657

TOTAL OPERATING REVENUES.....	5,786,178
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OPERATING EXPENSES

Salaries, wages and payroll taxes.....	2,869,863
Utilities.....	965,595
Fringe benefits.....	398,564
Maintenance.....	403,044
Supplies.....	253,306
Insurance.....	62,249
Food and beverage management fee.....	75,000
Food and beverage incentive fee.....	47,341
Data processing.....	55,271
Professional fees.....	51,875
Office.....	41,315
Travel and entertainment.....	24,469
Bank service charges.....	16,675
Advertising.....	18,132
Dues and subscriptions.....	6,322
Employee training.....	2,983
Other.....	6,076

TOTAL OPERATING EXPENSES.....	5,298,080
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OPERATING INCOME.....	488,098
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NONOPERATING REVENUES (EXPENSES)

Surplus distributions to the City of Worcester.....	(244,515)
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CHANGE IN NET POSITION.....	243,583
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NET POSITION AT BEGINNING OF YEAR.....	18,848
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NET POSITION AT END OF YEAR.....	\$ 262,431
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The accompanying notes are an integral part of the financial statements.

THE DCU CENTER
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users.....	\$ 5,739,845
Payments to vendors.....	(2,930,951)
Payments to employees.....	<u>(2,471,299)</u>

NET CASH FROM OPERATING ACTIVITIES.....	<u>337,595</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Surplus distributions to the City of Worcester.....	<u>(244,515)</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS.....	93,080
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

(Includes \$1,203,014 reported as restricted).....	<u>1,221,862</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR

(Includes \$1,296,094 reported as restricted).....	<u><u>\$ 1,314,942</u></u>
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**RECONCILIATION OF OPERATING INCOME TO NET CASH
FROM OPERATING ACTIVITIES**

Operating income.....	<u>\$ 488,098</u>
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Adjustments to reconcile operating income to net cash from operating activities:

Adjustments requiring current cash flows:

Changes in assets and liabilities:

Account receivables.....	(290,890)
Prepaid expenses.....	(1,417)
Inventory.....	(22,938)
Accounts payable.....	143,842
Accrued expenses.....	69,932
Due to City of Worcester.....	(316,527)
Advance deposits and ticket sales.....	178,095
Unearned revenue.....	<u>89,400</u>

Total adjustments.....	<u>(150,503)</u>
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NET CASH FROM OPERATING ACTIVITIES.....	<u><u>\$ 337,595</u></u>
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The accompanying notes are an integral part of the financial statements.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The DCU Center (Center) is owned by the City of Worcester, Massachusetts (City). The activities of the Center are directed by the five member Worcester Civic Center Commission (Commission) appointed by the City Manager. The Center is comprised of a convention center and arena. The convention center accommodates a variety of functions including trade shows, exhibitions, conventions, meetings, entertainment events and banquets. The arena is a 14,800 seat civic arena that hosts a variety of entertainment events, sporting events, and exhibitions.

The City, acting through the Commission, has a management services agreement (management agreement) with SMG. These financial statements report the financial activities of the Center as maintained by SMG.

The financial statements do not reflect any assets, liabilities, net position, revenues and expenses under control of the City as these items are reflected only on the City's financial statements.

C. Implementation of New Accounting Principles

For the year ending June 30, 2014, the Center implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*

The implementation of these GASB Statements had no reporting impact for the Center.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

The Center's financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Operating revenues and expenses are segregated from nonoperating items. Operating revenues consist primarily of direct event income, food and beverage income, ticket service fees and advertising income. Operating expenses result from providing services in connection with the Center's principal operations. All revenues and expenses not meeting the definition of operating are reported as nonoperating revenues and expenses, consisting primarily of surplus distributions to the City in accordance with the management agreement.

E. Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

F. Accounts Receivable

Accounts receivable consist primarily of amounts owed for arena and convention center events, superbox seats and advertising fees. Management provides for losses on uncollectible accounts receivable principally on the basis of past collection experience applied to ongoing evaluations of the receivables. The allowance for uncollectible accounts at June 30, 2014 totaled \$28,008.

G. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

H. Inventories

Inventories consist of food and beverage and are stated at cost based on last purchase price.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such limitations are externally imposed by the management agreement and other third parties.

J. Due to City of Worcester

Amounts due to the City consist primarily of surplus distributions owed to the City in accordance with the management agreement.

K. Advance Deposits and Ticket Sales and Unearned Revenue

Advance deposits and ticket sales and unearned revenue consist of monies received in advance for convention center and arena events and monies received in advance from advertising contracts.

L. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

The Center does not have items that qualify for reporting in this category.

M. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The Center does not have items that qualify for reporting in this category.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

N. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

NOTE 2 - DEPOSITS AND INVESTMENTS

The management agreement requires SMG to maintain separate operating bank accounts established at a banking institution located in the City. SMG's corporate policy guidelines suggest limiting investments to overnight sweep accounts, United States Treasury bills with maturities of 30-60 days, certificates of deposit with maturities of 90 days, mutual funds that have a constant per share purchase and redemption price and mutual funds that invest in United States government obligations.

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Center's deposits may not be recovered. The Center's policy for custodial credit risk of deposits is to maintain FDIC insurance coverage for all deposits. As of June 30, 2014, \$1,070,422 of the Center's bank balance of \$1,320,422 was uninsured and uncollateralized and therefore exposed to custodial credit risk.

Restricted Cash

Cash reported as restricted is based on limitations imposed by the management agreement, which requires cash either be distributed to the City quarterly or be held for the subsequent quarter's operations.

NOTE 3 - DUE TO THE CITY OF WORCESTER

The following represents a summary of amounts owed to the City at June 30, 2014:

Description	Amount
Audit fee accrual for the fiscal year ended June 30, 2014.....	\$ 17,000
Audit fee accrual for the fiscal year ended June 30, 2013.....	16,000
Miscellaneous.....	<u>7,025</u>
Total.....	<u><u>\$ 40,025</u></u>

NOTE 4 - FUNDING FROM THE CITY OF WORCESTER

A. Cash Flow Requirements

The management agreement contains provisions for the City to advance funds to SMG to meet the Center's cash flow requirements. The City may advance funds to SMG based on the following:

- No later than fifteen days prior to the beginning of each quarter, SMG submits a quarterly cash flow projection report to the City Manager, specifying cash flow requirements for the operation of the Center each month for the next two ensuing quarters. If the cash flow projection indicates a cash flow deficit for any month, the City may advance funds to SMG no later than the first business day of any such month.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

- At any time, SMG may notify the City in writing of the need for additional cash flow required to sustain the operation of the Center for any period up to four weeks. Such notification shall indicate the amount of funding required and shall state in detail the reason for the need for additional funding and the reason such need was not included in prior cash flow projections. No later than fifteen days after receipt of such notice, the City may advance funds to SMG.

The City retains the right to advance funds to SMG at levels that the City deems to be in its best interests. If the City fails to provide sufficient funding to cover cash flow deficits, SMG (upon request from the City or on its own initiative) shall submit a plan to reduce expenses to a level consistent with the funding available from the City. If SMG, after implementation of the plan to reduce expenses, believes the level of City funding will have a material adverse affect on their ability to perform its duties, SMG may elect to terminate the management agreement. The termination requires thirty days written notice and shall not occur more than sixty days after the effective date of the City's failure to provide sufficient funding to cover cash flow deficits.

During the fiscal year ended June 30, 2014, the City did not advance any funds to SMG related to cash flow requirements.

B. Capital Contribution

During calendar year 2007, SMG made a capital contribution for the Center's food and beverage operations in the amount of \$300,000. In accordance with the management agreement, the contribution is being amortized over a ten-year period, effective on October 1, 2007, on a straight-line, non-cash, non-interest bearing basis. In the event of the expiration or termination of the management agreement, the City shall pay (or cause any successor operator of the Center to pay) SMG the unamortized amount of the capital contribution as of the expiration or termination.

The unamortized balance of the capital contribution at June 30, 2014 totaled \$97,500.

NOTE 5 - MANAGEMENT FEES

A. Management Fees Payable to SMG by the City

The management agreement requires the City to pay management fees to SMG, which consist of a fixed fee and an incentive fee.

Fixed Fee

The base annual fixed fee was \$305,467 for the fiscal year ended June 30, 2013. The base annual fixed fee is adjusted based on the annual percentage change (over the twelve-month period ending in June of the preceding fiscal year) in the Consumer Price Index (All Items, All Urban Consumers, Boston-Brockton-Nashua Average, as published by the United States Department of Labor, Bureau of Labor Statistics).

The fixed fee for the fiscal year ended June 30, 2014 totaled \$309,744. Since the fixed fee is paid by the City, it is not reported as an expense in the Statement of Revenues, Expenses and Change in Net Position.

Incentive Fee

The incentive fee equals fifty percent of the amount by which operating revenues exceed \$4,000,000 in any given operating year; provided, that in no event shall the incentive fee exceed the fixed fee paid for the same operating year.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The incentive fee for the fiscal year ended June 30, 2014 totaled \$309,744. Since the incentive fee is paid by the City, it is not reported as an expense in the Statement of Revenues, Expenses and Change in Net Position.

B. Management Fees Payable to SMG Food and Beverage, LLC (SMGFB) by SMG

SMG has a food and beverage services agreement (food and beverage agreement) with SMGFB. The food and beverage agreement requires SMG to pay management fees to SMGFB, which consists of a fixed fee and an incentive fee.

Fixed Fee

The annual fixed fee is \$75,000 for each fiscal year of operations.

The fixed fee for the fiscal year ended June 30, 2014 totaled \$75,000 and is reported as food and beverage management fee in the Statement of Revenues, Expenses and Change in Net Position.

Incentive Fee

The incentive fee equals the sum of the following:

- Fifteen percent of gross food and beverage revenue in excess of the gross food and beverage revenue threshold (average gross food and beverage revenues for the prior two fiscal years)
- Twenty percent of net food and beverage operating income in excess of the net food and beverage operating income threshold (average net food and beverage operating income for the prior two fiscal years).

The incentive fee for the fiscal year ended June 30, 2014 totaled \$47,341 and is reported as food and beverage incentive fee in the Statement of Revenues, Expenses and Change in Net Position.

NOTE 6 - SURPLUS DISTRIBUTIONS TO THE CITY OF WORCESTER

The management agreement requires SMG, on a quarterly basis, to distribute surplus to the City. The management agreement defines surplus as the amount by which operating revenue for the prior quarter exceeded operating expenses for the prior quarter, less the projected cash flow shortfall for the subsequent quarter.

During the fiscal year ended June 30, 2014, surplus distributions totaled \$244,515 and are reported as surplus distributions to the City of Worcester in the Statement of Revenues, Expenses and Change in Net Position.

Operating revenue for quarter ended June 30, 2014 exceeded operating expenses by \$243,583. This amount was less than the projected cash flow shortfall for the subsequent quarter. Therefore, as defined in the management agreement, there was no surplus for the quarter ended June 30, 2014. Accordingly, there was no surplus distribution to the City for the quarter ended June 30, 2014.

NOTE 7 - COMMITMENTS

In March 2014, the City, SMG and the Digital Federal Credit Union (DCU) amended a Naming Rights Agreement (agreement). The agreement is for the period of March 1, 2015 through February 28, 2025. As part of the agreement, an Event Development Fund (fund) was created. The fund will be managed by SMG to purchase talent, underwrite events, or otherwise incentivize new events.

DCU CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

When promoting events directly, a normal and customary rental fee shall be paid to the Center when the event activities result in a profit. In this case, all monies in excess of the normal and customary rental and use fees shall be deposited into the fund. When the event results in a loss, such losses shall be offset by the City and SMG providing for the rent fee and all additional expenses paid out of the fund.

At the expiration or termination of the agreement, any monies remaining in the fund shall revert to the City to be used at the City's sole discretion.

In fiscal year 2014, DCU made a payment of \$200,000 to SMG for deposit into the fund. The \$200,000 is reported as advance deposits and ticket sales in the Statement of Net Position.

Supplementary Information

THE DCU CENTER
SCHEDULE OF MANAGEMENT FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FIXED MANAGEMENT FEE PAID TO SMG BY CITY OF WORCESTER

Base fee.....	\$	305,467
Consumer Price Index (CPI) - annual percentage change 2012-2013 (A).....		<u>1.40%</u>
CPI adjustment to base fee (\$305,467 x 1.4%).....		<u>4,277</u>
Total fixed management fee.....		<u>309,744</u>

MANAGEMENT INCENTIVE FEE OWED TO SMG BY CITY OF WORCESTER

Operating revenues (as defined in the management agreement).....	5,755,686
Less: Incentive benchmark.....	<u>(4,000,000)</u>
Excess of operating revenues over incentive benchmark.....	1,755,686
Management incentive fee percentage.....	<u>50%</u>
Excess of operating revenues multiplied by incentive fee percentage.....	<u>877,843</u>
Management incentive fee cap (B).....	<u>309,744</u>
Total management incentive fee.....	<u>309,744</u>
Total management fees.....	\$ <u><u>619,488</u></u>

(A) Based on the Consumer Price Index, All Items, All Urban Consumers, Boston-Brockton-Nashua Average, as published by the United States Department of Labor, Bureau of Labor Statistics

(B) Cannot exceed fixed management fee

THE DCU CENTER
SCHEDULE OF FOOD AND BEVERAGE MANAGEMENT FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

FIXED MANAGEMENT FEE PAID TO SMG FOOD AND BEVERAGE (SMGFB) BY SMG

Base fee.....	\$	<u>75,000</u>
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MANAGEMENT INCENTIVE FEE OWED TO SMGFB BY SMG

Gross Revenue Component

Gross food and beverage revenues (as defined in the food and beverage agreement).....	\$	4,101,444
Less: Gross food and beverage revenue threshold (A).....		<u>(3,927,978)</u>
Excess (deficiency) of gross revenues over threshold.....		<u>173,466</u>
Management incentive fee percentage.....		<u>15%</u>
Excess of gross revenues multiplied by incentive fee percentage.....		<u>26,020</u>

Net Operating Income Component

Net food and beverage operating income.....		1,764,478
Less: Net food and beverage operating income threshold (B).....		<u>(1,657,874)</u>
Excess (deficiency) of net operating income over threshold.....		<u>106,604</u>
Management incentive fee percentage.....		<u>20%</u>
Excess of net operating income multiplied by incentive fee percentage.....		<u>21,321</u>
Total management incentive fee.....	\$	<u><u>47,341</u></u>

(A) Average of the gross food and beverage revenues for the prior two fiscal years

(B) Average of the net food and beverage operating income for the prior two fiscal years

THE DCU CENTER
MANAGEMENT LETTER
JUNE 30, 2014



CliftonLarsonAllen LLP
CLAAconnect.com

To the Worcester Civic Center Commission and SMG Board Members
The DCU Center
City of Worcester, Massachusetts

In planning and performing our audit of the financial statements of the DCU Center (Center) as of and for the fiscal year ended June 30, 2013, in accordance with 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, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and recommendation regarding this matter. This letter does not affect our report dated August 28, 2014, on the financial statements of the Center.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel, and we will be pleased to discuss this in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

The Center's written response to the matter identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Worcester Civic Center Commission and others within the organization and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, MA
August 28, 2014

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THE DCU CENTER
MANAGEMENT LETTER

JUNE 30, 2014

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Comment and Recommendation

Event Development Fund

Comment

In March 2014, the City of Worcester (City), SMG and the Digital Federal Credit Union (DCU) amended a Naming Rights Agreement (agreement). The agreement is for the period of March 1, 2015 through February 28, 2025.

As part of the agreement, an Event Development Fund was created. The Event Development Fund will be managed by SMG to purchase talent, underwrite events, or otherwise incentivize new events. In fiscal year 2014, DCU made a payment of \$200,000 to SMG for deposit into the Event Development Fund. The \$200,000 is reported as advance deposits and ticket sales in the Statement of Net Position in the DCU Center (Center) financial statements.

According to the agreement, when promoting events directly, a normal and customary rental fee shall be paid to the Center when the event activities result in a profit. In this case, all monies in excess of the normal and customary rental and use fees shall be deposited into the Event Development Fund. When the event results in a loss, such losses shall be offset by the City and SMG providing for the rent fee and all additional expenses paid out of the fund.

There are various operational, accounting and financial reporting considerations related to the Event Development Fund that need to be addressed by SMG and the City.

Recommendation

We recommend SMG and the City collaborate and coordinate to implement policies/procedures and internal controls to ensure compliance with the agreement.

Management's Response

We agree that SMG and the City should meet with the City to coordinate policies and procedures. We will need to be directed to the appropriate representative from the City.