

**THE DCU CENTER**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2019**



[CLAAconnect.com](http://CLAAconnect.com)

**WEALTH ADVISORY**  
**OUTSOURCING**  
**AUDIT, TAX, AND**  
**CONSULTING**

**THE DCU CENTER  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2019**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>4</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>8</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION</b>	<b>9</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>10</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>11</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE OF MANAGEMENT FEES PAID BY THE CITY</b>	<b>17</b>
<b>SCHEDULE OF FOOD AND BEVERAGE MANAGEMENT FEES PAID BY THE CENTER</b>	<b>18</b>



## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the DCU Center (Center), an operating activity of the City of Worcester (City) that is attributable to the transactions of the Center as maintained by SMG, as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the City and the SMG agreement. Management 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial statements are prepared on the basis of the financial reporting provisions of the City and SMG agreement, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the City.

The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Center as of June 30, 2019, and the respective changes in net position and cash flows thereof for the year then ended.

***Unmodified Opinion on City’s Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with the financial reporting provisions of the City and SMG as described in Note 1.

***Emphasis of a Matter***

As discussed in Note 1, the financial statements present only the financial position, changes in financial position, and cash flows of only that portion of the Center’s activities that is attributable to the transactions of the Center as maintained by SMG.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the Center’s financial statements. The management’s discussion and analysis and supplementary information, as referenced in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

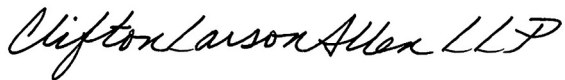
The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The management’s discussion and analysis section has not been subjected to the auditing procedures applied in the audit of the Center’s financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Worcester Civic Center Commission and SMG Board Members  
The DCU Center

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2019 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 solely 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 the effectiveness of the Center's 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Boston, Massachusetts  
September 18, 2019

**DCU CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

This section of the DCU Center's (Center) annual financial report presents a discussion and analysis of the Center's financial activities during the fiscal year ended June 30, 2019 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 equaled its liabilities (i.e., net position) at the close of fiscal year 2019.
- Operating income of the Center was \$1,001,823 for the fiscal year ended June 30, 2019.

**Overview of the Financial Statements**

The City of Worcester, Massachusetts, 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 2019. 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 8-10.

**DCU CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

**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 11-16.

**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 found on pages 17-18.

**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 equaled liabilities at the close of the most recent fiscal year and are summarized as follows:

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 4,509,293	\$ 4,011,835
Noncurrent Assets	<u>46,000</u>	<u>31,500</u>
Total Assets	4,555,293	4,043,335
Current Liabilities	4,509,293	4,011,835
Noncurrent Liabilities	<u>46,000</u>	<u>31,500</u>
Total Liabilities	<u>4,555,293</u>	<u>4,043,335</u>
Net Position	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**DCU CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

The Center's total net position did not change during the recent fiscal year and is summarized as follows:

	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 7,295,052	\$ 7,274,197
Operating Expenses	<u>6,293,229</u>	<u>6,286,650</u>
Operating Income	1,001,823	987,547
Nonoperating Expenses (Surplus Distribution to City)	<u>(1,001,823)</u>	<u>(987,547)</u>
Change in Net Position	-	-
Net Position - Beginning	<u>-</u>	<u>-</u>
Net Position - Ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

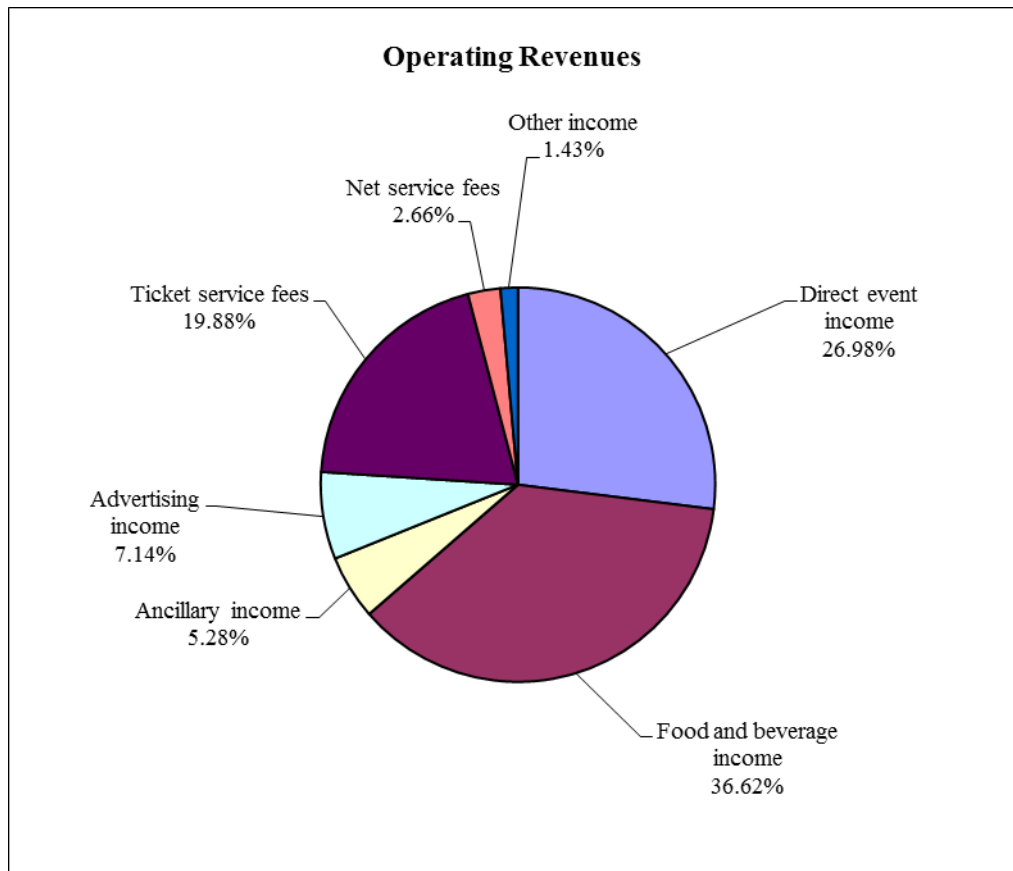


**DCU CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019**

**Operating Revenues**

Total operating revenues were \$7,295,052, which was a \$20,855 or 0.3% increase from the previous fiscal year.

**Operating Revenues by Source**



**Operating Expenses**

Total operating expenses were \$6,293,229, which was a \$6,579 or 0.1% increase from the previous fiscal year.

**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 requests for additional financial information should be addressed to the City of Worcester's Chief Financial Officer, City Hall, Worcester, Massachusetts 01608.

**THE DCU CENTER  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

**ASSETS**

Current:

Restricted Cash and Cash Equivalents	\$ 3,511,411
Account Receivables, Net of Allowance for Uncollectibles of \$40,959	778,312
Prepaid Expenses	76,148
Inventory	143,422
Total Current Assets	<u>4,509,293</u>

Noncurrent:

Restricted Cash and Cash Equivalents	<u>46,000</u>
Total Assets	4,555,293

**LIABILITIES**

Current:

Accounts Payable	846,701
Accrued Expenses	628,442
Due to City of Worcester	1,054,167
Advance Deposits and Ticket Sales	1,775,959
Unearned Revenue	204,024
Total Current Liabilities	<u>4,509,293</u>

Noncurrent:

Advance Deposits and Ticket Sales	<u>46,000</u>
Total Liabilities	4,555,293

**NET POSITION**

Unrestricted

Total Net Position	<u><u>\$ -</u></u>
--------------------	--------------------

See accompanying Notes to Financial Statements.

**THE DCU CENTER**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**YEAR ENDED JUNE 30, 2019**

**OPERATING REVENUES**

Direct Event Income	\$ 1,968,355
Food and Beverage Income	2,671,649
Ancillary Income	385,531
Advertising Income	521,118
Ticket Service Fees	1,450,081
Net Service Fees	194,236
Other Income	104,082
Total Operating Revenues	<u>7,295,052</u>

**OPERATING EXPENSES**

Salaries, Wages and Payroll Taxes	3,228,873
Utilities	1,108,601
Fringe Benefits	495,207
Maintenance	356,605
Supplies	356,108
Insurance	85,968
Food and Beverage Management Fee	75,000
Food and Beverage Incentive Fee	88,973
Data Processing	296,002
Professional Fees	78,429
Office	39,377
Travel and Entertainment	18,047
Bank Service Charges	43,781
Advertising	4,616
Dues and Subscriptions	9,400
Employee Training	3,462
Other	4,780
Total Operating Expenses	<u>6,293,229</u>

**OPERATING INCOME** 1,001,823

**NONOPERATING REVENUES (EXPENSES)**

Surplus Distributions to the City of Worcester	<u>(1,001,823)</u>
--	--------------------

**CHANGE IN NET POSITION** -

Net Position - Beginning of Year -

**NET POSITION - END OF YEAR** \$ -

*See accompanying Notes to Financial Statements.*

**THE DCU CENTER  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers and Users	\$ 7,342,963
Payments to Vendors	(3,340,510)
Payments to Employees	(2,733,666)
Net Cash Provided by Operating Activities	<u>1,268,787</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Surplus Distributions to the City of Worcester	<u>(906,647)</u>
--	------------------

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

362,140

Cash and Cash Equivalents - Beginning of Year

3,195,271

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 3,557,411

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
FROM OPERATING ACTIVITIES**

Operating Income	\$ 1,001,823
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:	
Adjustments Requiring Current Cash Flows:	
Effect of Changes in Operating Assets and Liabilities:	
Account Receivables	(112,474)
Prepaid Expenses	(31,309)
Inventory	(6,035)
Accounts Payable	397,379
Accrued Expenses	(167,989)
Due to City of Worcester	20,972
Advance Deposits and Ticket Sales	158,672
Unearned Revenue	7,748
Total Adjustments	<u>266,964</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,268,787</u></u>

*See accompanying Notes to Financial Statements.*

**THE DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

The DCU Center (Center) is a proprietary activity of the City of Worcester, Massachusetts (City). The City has a management services agreement (management agreement) with SMG. These financial statements have been prepared in accordance with the financial reporting provisions of the City as stated in the management agreement. This basis of accounting differs from accounting principles generally accepted in the United States of America in that these financial statements omit all fixed assets, associated debt and management fee expense and associated liabilities paid by the City. See the *Measurement Focus, Basis of Accounting and Basis of Presentation* below for further discussion of this departure from generally accepted accounting principles.

The significant accounting policies are described herein.

The financial statements have been prepared in accordance with the financial reporting provisions of the management agreement as noted above. This basis of accounting differs from accounting principles generally accepted in the United States of America as noted above.

**Reporting Entity**

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.

**Implementation of New Accounting Principles**

For the year ending June 30, 2019, the Center implemented the following pronouncements issued by the GASB:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements

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

**Measurement Focus, Basis of Accounting, and Basis of Presentation**

The Center's financial statements are reported using the current financial 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, but long-term assets and any associated debt are recorded only at the City level. Generally accepted accounting principles require the economic resource measurement focus for proprietary funds. Additionally, management fees are paid to SMG by the City and are not included in the expenses or liabilities of the Center.

**THE DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)**

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.

**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.

**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, 2019 totaled \$40,959.

**Prepaid Expenses**

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

**Inventories**

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

**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.

**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.

**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.

**THE DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.

**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 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, 2019, \$3,442,900 of the Center's bank balance of \$3,692,900 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.

**THE DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 DUE TO THE CITY OF WORCESTER**

The following represents a summary of amounts owed to the City at June 30, 2019.

Surplus Distribution for the Fiscal Year ended June 30, 2019	\$ 1,001,823
Audit Fee Accrual for the Fiscal Year Ended June 30, 2019	38,500
Miscellaneous	13,844
Total	<u>\$ 1,054,167</u>

**NOTE 4 FUNDING FROM THE CITY OF WORCESTER**

**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.
- 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 effect 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, 2019, the City did not advance any funds to SMG related to cash flow requirements.



**THE DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 MANAGEMENT FEES**

**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 fixed fee for the fiscal year ended June 30, 2019 totaled \$339,590. 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.

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), capped at 3.0%. The base annual fixed fee was \$329,699 for the fiscal year ended June 30, 2018.

**Incentive Fee**

For the fiscal year ended June 30, 2019, the incentive fee equals 50% of the amount by which operating revenues exceed \$4,900,000, provided that in no event shall the incentive fee exceed the fixed fee.

The incentive fee for the fiscal year ended June 30, 2019 totaled \$339,590. 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.

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

The Center has a food and beverage services agreement (food and beverage agreement) with SMGFB. The food and beverage agreement requires the Center 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, 2019 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 DCU CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 MANAGEMENT FEES (CONTINUED)**

**Management Fees Payable to SMG Food and Beverage, LLC (SMGFB) by SMG  
(Continued)**

Incentive Fee (Continued)

The incentive fee for the fiscal year ended June 30, 2019 totaled \$88,973 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 the Center, 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, 2019, surplus distributions totaled \$1,001,823 and are reported as surplus distributions to the City of Worcester in the statement of revenues, expenses, and change in net position. The entire amount is still owed to the City of Worcester as of June 30, 2019 and is reported as "Due to City of Worcester" in the statement of net position.

**NOTE 7 COMMITMENTS**

In March 2014, the City, the Center, 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 is managed by SMG to purchase talent, underwrite events, or otherwise incentivize new events.

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 the Center 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 the Center for deposit into the fund. During fiscal year 2016, incentive fees of \$22,102 were deposited into the fund. During fiscal year 2019, incentive fees of \$95,265 were deposited into the fund. None of the deposits have been expended as of June 30, 2019. As a result, the balance in the fund at June 30, 2019 was \$317,367. This amount is included in advance deposits and ticket sales in the statement of net position.

**THE DCU CENTER  
SCHEDULE OF MANAGEMENT FEES PAID BY THE CITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**FIXED MANAGEMENT FEE PAID TO SMG BY CITY OF WORCESTER**

Base Fee	\$ 329,699
Consumer Price Index (CPI) - Annual Percentage Change 2017-2018 (A)	<u>3.0%</u>
CPI Adjustment to Base Fee (\$329,699 x 3.0%)	<u>9,891</u>
Total Fixed Management Fee	<u>339,590</u>

**MANAGEMENT INCENTIVE FEE OWED TO SMG BY CITY OF WORCESTER**

Operating Revenues (as Defined in the Management Agreement)	7,268,388
Less: Incentive Benchmark	<u>(4,900,000)</u>
Excess of Operating Revenues Over Incentive Benchmark	2,368,388
Management Incentive Fee Percentage	<u>50%</u>
Excess of Operating Revenues Multiplied by Incentive Fee Percentage	<u>1,184,194</u>
Management Incentive Fee Cap (B)	<u>339,590</u>
Total Management Incentive Fee	<u>339,590</u>
Total Management Fees	<u><u>\$ 679,180</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 PAID BY THE CENTER**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

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

Base Fee	\$ 75,000
----------	-----------

**MANAGEMENT INCENTIVE FEE OWED TO SMGFB BY SMG**

Gross Revenue Component

Gross Food and Beverage Revenues (as Defined in the Food and Beverage Agreement)	\$ 4,906,461
Less: Gross Food and Beverage Revenue Threshold (A)	<u>(4,577,716)</u>
Excess (Deficiency) of Gross Revenues Over Threshold	<u>328,745</u>
Management Incentive Fee Percentage	<u>15%</u>
Excess of Gross Revenues Multiplied by Incentive Fee Percentage	<u>49,312</u>

Net Operating Income Component

Net Food and Beverage Operating Income	2,025,488
Less: Net Food and Beverage Operating Income Threshold (B)	<u>(1,827,183)</u>
Excess (Deficiency) of Net Operating Income Over Threshold	<u>198,305</u>
Management Incentive Fee Percentage	<u>20%</u>
Excess of Net Operating Income Multiplied by Incentive Fee Percentage	<u>39,661</u>
Total Management Incentive Fee	<u>\$ 88,973</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.

