



**MUNICIPALITY OF ANCHORAGE**  
**ASSEMBLY INFORMATION MEMORANDUM**

No. AIM 46-2013

Meeting Date: June 4, 2013

*Accepted 6/4/13*

**From: MAYOR**

**Subject: PRESENTATION OF THE 2012 AUDITED FINANCIALS FOR THE WILLIAM A. EGAN AND DENA'INA CIVIC AND CONVENTION CENTERS.**

The 2012 audited financials for the William A. Egan and Dena'ina Civic and Convention Centers are being submitted as required by and presented for review based on the terms of their associated management agreement. Listed below is a combined facility comparison of approved budget to audited actuals for both 2012 and 2011:

<u>Comparison</u>	<u>2012</u>		<u>2011</u>	
	<u>Approved Budget</u>	<u>Audited Financials</u>	<u>Approved Budget</u>	<u>Audited Financials</u>
<b>Revenues</b>	\$6,421,141	\$7,240,578	\$6,766,516	\$6,796,157
<b>Expenses</b>	<u>(7,568,529)</u>	<u>(7,499,340)</u>	<u>(7,763,872)</u>	<u>(7,618,398)</u>
<b>Net Profit/(Loss)</b>	(\$1,147,388)	(\$258,762)	(\$997,356)	(\$822,241)
<b>Capital Reserve Contribution*</b>	\$256,845	\$292,752	\$270,661	\$272,266

\*Capital Reserve Contribution is calculated at 4% of gross revenues and is included in the Expenses line above pursuant to the management agreement dated January 2011.

Funding of the net losses comes from the additional 4% Hotel/Motel Room Tax approved by the voters in April 2005.

Prepared by: Debra Fitzgerald, Office of the Municipal Manager  
 Concur: George J. Vakalis, Municipal Manager  
 Respectfully submitted: Daniel A. Sullivan, Mayor

**WILLIAM A. EGAN CIVIC AND  
CONVENTION CENTER**

Financial Statements

Years Ended December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)



**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

WILLIAM A. EGAN CIVIC AND CONVENTION CENTER

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**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

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Independent Auditor's Report

SMG of Alaska, Inc  
Anchorage, Alaska

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying special-purpose financial statements of William A Egan Civic and Convention Center, which comprise the statements of assets and liabilities as of December 31, 2012 and 2011, and the related statements of revenues, expenses, provision for asset replacement, and facility operator profit allocation, changes in balance due (to) from Anchorage Convention and Visitors Bureau dba Visit Anchorage (ACVB), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the statements of assets and liabilities of William A Egan Civic and Convention Center as of December 31, 2012 and 2011, and the revenues, expenses, provision for asset replacement, and facility operator profit allocation, the changes in balance due (to) from Anchorage Convention and Visitors Bureau dba Visit Anchorage, and its cash flows for the years then ended, on the basis of accounting described in note 1.

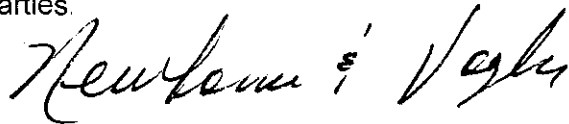
Other Matter

In connection with our audit, nothing came to our attention that caused us to believe that William A. Egan Civic and Convention Center failed to comply with the terms, covenants, provisions, or conditions of Section 13 E.4 of the management agreement between the Anchorage Convention and Visitors Bureau dba Visit Anchorage and SMG of Alaska, Inc., as amended January 6, 2011, and discussed in Note 1 to the special-purpose financial statements. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding SMG of Alaska Inc's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the agreement, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

The communication related to compliance with the aforementioned Indenture described in the other-matter paragraph is intended solely for the information and use of management of SMG of Alaska, Inc, the Anchorage Convention and Visitors Bureau dba Visit Anchorage, and the Municipality of Anchorage and is not intended to be and should not be used by anyone other than these specified parties.

March 27, 2013



William A. Egan Civic and Convention Center

Statements of Assets and Liabilities

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 213,453	306,232
Accounts receivable - Trade	152,577	97,234
Accounts receivable - Related party	110,675	4,493
Inventory	48,966	45,902
Prepays	17,095	2,380
Due from ACVB	<u>-</u>	<u>100,373</u>
<i>Total current assets</i>	<u>\$ 542,766</u>	<u>556,614</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable - Trade	\$ 130,498	79,977
Accounts payable - Related party	2,992	223,203
Accrued management fee	69,781	47,645
Accrued payroll and related benefits	102,727	67,042
Unearned revenue	109,719	115,046
Due to ACVB	94,401	-
MOA reserves payable	<u>32,648</u>	<u>23,701</u>
<i>Total current liabilities</i>	<u>\$ 542,766</u>	<u>556,614</u>

See accompanying notes to financial statements.

William A. Egan Civic and Convention Center

Statements of Revenues, Expenses, Provision for Asset Replacement, and  
Facility Operator Profit Allocation

Years Ended December 31, 2012 and 2011

	2012	2011
Revenues:		
Catering	\$ 999,518	730,097
Beer and wine concession	311,375	347,014
Building rent	418,808	353,871
Vending and concession	84,618	101,676
Equipment rental	94,357	86,681
Ticket and novelty commission	94,639	66,871
Other	11,724	27,479
Total revenues	<u>2,015,039</u>	<u>1,713,689</u>
Expenses:		
Direct operating costs:		
Salaries, wages, and related expenses	1,358,043	1,292,888
Catering:		
Cost of goods sold	287,401	269,525
Beer and wine	70,310	67,805
Other catering	64,849	67,044
Utilities	172,712	237,809
Other	363,931	334,181
Total direct operating costs	<u>2,317,246</u>	<u>2,269,252</u>
Indirect operating costs	20,992	18,477
Management fees	69,781	47,645
Total expenses	<u>2,408,019</u>	<u>2,335,374</u>
Excess of expenses over revenues before provision for asset replacement and facility operator profit allocation	(392,980)	(621,685)
Provision for asset replacement	<u>81,709</u>	<u>68,548</u>
Excess of expenses over revenues and provision for asset replacement and facility operator profit allocation	<u>\$ (474,689)</u>	<u>(690,233)</u>

See accompanying notes to financial statements

**William A. Egan Civic and Convention Center**

*Statement of Changes in Balance Due (to) from  
Anchorage Convention and Visitors Bureau dba Visit Anchorage*

*Years Ended December 31, 2012 and 2011*

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Balance, January 1, 2011	\$ 24,922
Payments from ACVB	(251,098)
MOA reserve paid by ACVB	(49,103)
Operating transfers from DCC	(314,581)
Expenses and provision for asset replacement in excess of revenues	<u>690,233</u>
Balance, December 31, 2011	100,373
Payments from ACVB	(219,212)
MOA reserve paid by DCC	(31,885)
MOA reserve paid on behalf of DCC	76,742
Operating transfers from DCC	(495,108)
Expenses and provision for asset replacement in excess of revenues	<u>474,689</u>
Balance, December 31, 2012	<u>\$ (94,401)</u>

See accompanying notes to financial statements.

William A. Egan Civic and Convention Center

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Excess of expenses over revenues, provision for asset replacement and facility operator profit allocation:	\$ (474,689)	(690,233)
Adjustments for non-cash activity:		
MOA reserve paid by ACVB	-	49,103
Dena'ina Center payments on behalf of the Egan Center	31,885	-
(Increase) decrease in assets:		
Accounts receivable:		
Trade	(55,343)	27,934
Related party	(106,182)	(250)
Inventory	(3,064)	(1,419)
Prepaid expenses	(14,715)	3,811
Increase (decrease) in liabilities:		
Accounts payable:		
Trade	50,521	3,913
Related party	(220,211)	211,365
Accrued management fees	22,136	7,335
Accrued payroll and related benefits	35,685	23,532
Unearned revenue	(5,327)	(151,816)
MOA reserves payable to ACVB	8,947	(6,119)
Net cash used in operating activities	<u>(730,357)</u>	<u>(522,844)</u>
Cash flows from financing activities:		
Transfers from Dena'ina Civic and Convention Center	495,108	314,581
Payments on behalf of Dena'ina Civic and Convention Center	(76,742)	-
Payments from ACVB	<u>219,212</u>	<u>251,098</u>
Net cash provided by financing activities	<u>637,578</u>	<u>565,679</u>
(Decrease) increase in cash	(92,779)	42,835
Cash, beginning of year	<u>306,232</u>	<u>263,397</u>
Cash, end of year	<u>\$ 213,453</u>	<u>306,232</u>

See accompanying notes to financial statements.

# William A. Egan Civic and Convention Center

## *Notes to the Financial Statements*

*Years Ended December 31, 2012 and 2011*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The William A. Egan Civic and Convention Center (ECC) is owned by the Municipality of Anchorage (Municipality) and was built to host conventions, meetings, and exhibitions. ECC began operations on February 4, 1984. ECC's operations are managed by SMG of Alaska, Inc. (SMG) on behalf of the Municipality under a Management Agreement (Agreement) with the Anchorage Convention and Visitors Bureau dba Visit Anchorage (ACVB), which in turn operates under a management agreement with the Municipality. SMG provides management services for the Dena'ina Civic and Convention Center (DCC) under the same Agreement. Although the Agreement consolidates both ECC and DCC, these financial statements reflect only ECC operations. Any reference to DCC is included in a separately issued financial statement.

The most recent Agreement, entered into January 6, 2011, will expire December 31, 2015, with one option to renew for an additional five years upon mutual agreement of both the parties.

SMG also provides services for the George M. Sullivan Sports Arena and Ben Boeke and Dempsey Anderson Ice Arenas (Municipal facilities) under separate contracts with the Municipality of Anchorage.

#### **Basis of Accounting**

The financial statements include certain operating accounts of ECC, as defined in the Agreement and are not intended to present the financial position or results of operations of ECC. The financial statements are prepared on a basis consistent with generally accepted accounting principles, except for the accounting for property and equipment and long term debt, which are accounted for in accordance with the Agreement.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand as well as cash in checking accounts.

#### **Inventory**

Inventory consists primarily of catering food and beverage and is stated at the lower of cost, on the first-in, first-out basis, or market.

#### **Property and Equipment**

All property, equipment, and improvements of ECC are accounted for by the Municipality as a separate fund. Accordingly, no such assets have been included in the accompanying financial statements.

#### **Revenue Recognition**

Event revenue is recognized by ECC on the day of an event. Accordingly, advance ticket sales and other revenues received in advance are recorded as unearned revenue.

#### **Compensated Leave**

Annual leave is accrued as earned.

WILLIAM A. EGAN CIVIC AND CONVENTION CENTER

Notes to the Financial Statements, continued

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Reimbursed Expenses**

Event lease agreements generally provide that the lessee will directly reimburse ECC for certain costs incurred. Direct operating costs included in the accompanying financial statements for the years ended December 31, 2012 and 2011, are net of such reimbursements totaling \$310,096 and \$232,075, respectively

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect reported amounts of assets and liabilities, disclosures of contingent liabilities, and reported revenues and expenses. Actual financial results may differ from recorded balances.

**Comparative Information**

Certain amounts from the prior year have been reclassified to conform to the current-year presentation which did not affect the net balance due to Anchorage Convention and Visitors Bureau, dba Visit Anchorage

**NOTE 2 – CASH AND EQUIVALENTS**

The William A. Egan Civic and Convention Center cash is maintained at Key Bank. As of December 31, 2012, bank and book balances in the accounts at year end were \$197,279 and \$213,453, respectively. The entire balance was covered by FDIC insurance. As of December 31, 2011, bank and book balances at year end were \$316,610 and \$306,232, respectively. Of the bank balance, only \$250,000 was covered by FDIC insurance.

**NOTE 3 – MANAGEMENT AGREEMENT**

SMG is responsible for all catering management and operations for both ECC and DCC under the same management agreement with ACVB

For the year ended December 31, 2012 and 2011, SMG is entitled to incentive based fees in order to achieve maximum profitability. The fees are based upon the following schedule, and are capped at \$250,000 annually.

Equipment Rentals:	7%
Gross Building rents up to \$1,000,000:	6%
Gross Building rents in excess of \$1,000,000:	10%
Net Box Office Total:	7%
Net Catering Total:	5%
Net Concessions Total:	5%

Amounts owed to SMG under the Agreements are \$69,781 and \$47,645 at December 31, 2012 and 2011, and is reported as accrued management fees

## WILLIAM A. EGAN CIVIC AND CONVENTION CENTER

### *Notes to the Financial Statements, continued*

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#### **NOTE 4 – RELATED PARTY TRANSACTIONS**

Related party receivables consist of amounts due to ECC for reimbursement of certain operating costs, equipment rental, and related expenses and cash receipts collected on behalf of the ECC, from the other Municipal facilities also management by SMG

Related party payables include amounts collected by ECC on behalf of the other Municipal facilities, amount due to the Sullivan Arena and DCC for reimbursement of certain operating costs, including payroll and related expenses

The Agreement directs SMG, which also manages the Sullivan Arena, Ben Boeke/Dempsey Anderson Ice Arena's, and DCC, to share personnel between ECC, DCC, and the Arena's where it will serve to reduce the total cost for such expenses taken as a whole. Expenses in accompanying financial statement titled other expenses include annual reimbursement from ECC of \$18,000 and \$18,000 in both 2012 and 2011, respectively Also included in other expenses are costs related to ACVB facilities management of \$46,000 and \$47,901 for the years ended December 31, 2012 and 2011, respectively.

#### **NOTE 5 – DUE TO/FROM THE ANCHORAGE CONVENTION AND VISITORS BUREAU DBA VISIT ANCHORAGE (ACVB)**

In accordance with the Agreement, 4% of revenues are to be remitted to ACVB monthly and held in a reserve for asset replacement. These reserves used for equipment replacements, ECC improvements and capital repairs and maintenance. Expenditures from these reserves require approval by the Municipality contract administrator.

In addition, ACVB will reimburse ECC for projected operating losses (based on monthly operating deficits) not less than quarterly throughout the fiscal year. Surpluses shall be retained to reduce future deficits, except that ACVB may withdraw such surplus funds as it may determine at its sole discretion

#### **NOTE 6 – CASH AND CUSTOMER CONCENTRATIONS**

Financial instruments that potentially subject ECC to concentration of credit risk consist principally of cash and temporary cash investments and receivables. ECC maintains its cash at one financial institution. This institution has a strong credit rating and management believes credit risk related to these deposits is minimal.

#### **NOTE 7 – SUBSEQUENT EVENTS**

Subsequent event procedures have been performed as of March 27, 2013 This is also the date the financials were available to be issued.

**DENA'INA CIVIC AND CONVENTION CENTER**

Financial Statements

Years Ended December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)



**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

# DENA'INA CIVIC AND CONVENTION CENTER

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Independent Auditor's Report

SMG of Alaska, Inc  
Anchorage, Alaska

Ladies and Gentlemen:

Report on the Financial Statements

We have audited the accompanying special-purpose financial statements of Dena'ina Civic and Convention Center, which comprise the statements of assets and liabilities as of December 31, 2012 and 2011, and the related statements of revenues, expenses, provision for asset replacement, and facility operator profit allocation, changes in balance due (to) from Anchorage Convention and Visitors Bureau dba Visit Anchorage (ACVB), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 special-purpose financial statements.

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

Opinion

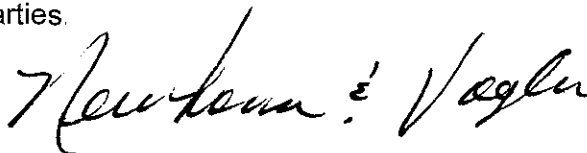
In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the statements of assets and liabilities of Dena'ina Civic and Convention Center as of December 31, 2012 and 2011, and the revenues, expenses, provision for asset replacement, and facility operator profit allocation, the changes in balance due (to) from Anchorage Convention and Visitors Bureau dba Visit Anchorage, and its cash flows for the years then ended, on the basis of accounting described in Note 1

Other Matter

In connection with our audit, nothing came to our attention that caused us to believe that Dena'ina Civic and Convention Center failed to comply with the terms, covenants, provisions, or conditions of Section 13 E.4 of the management agreement between the Anchorage Convention and Visitors Bureau dba Visit Anchorage and SMG of Alaska, Inc., as amended January 6, 2011, and discussed in Note 1 to the special-purpose financial statements. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding SMG of Alaska Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the agreement, insofar as they relate to accounting matters.

Restricted Use Relating to the Other Matter

The communication related to compliance with the aforementioned Indenture described in the other-matter paragraph is intended solely for the information and use of management of SMG of Alaska, Inc., the Anchorage Convention and Visitors Bureau dba Visit Anchorage, and the Municipality of Anchorage, and is not intended to be and should not be used by anyone other than these specified parties.



March 27, 2013

Dena'ina Civic and Convention Center

Statements of Assets and Liabilities

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 297,995	391,288
Accounts receivable - Trade	635,378	552,237
Accounts receivable - Related party	22,668	219,407
Prepays	28,911	4,279
Inventory	<u>121,162</u>	<u>97,223</u>
<i>Total current assets</i>	<u>\$ 1,106,114</u>	<u>1,264,434</u>
 <b>Liabilities</b>		
Current liabilities:		
Accounts payable - trade	\$ 293,696	386,498
Related party payable	20,076	26,085
Accrued management fee	156,031	141,785
Accrued payroll and related benefits	119,581	102,015
Unearned revenue	240,140	245,543
MOA reserves payable to ACVB	80,395	76,742
Due to ACVB	<u>196,195</u>	<u>285,766</u>
<i>Total current liabilities</i>	<u>\$ 1,106,114</u>	<u>1,264,434</u>

See accompanying notes to financial statements.

## Dena'ina Civic and Convention Center

### *Statements of Revenues, Expenses, Provision for Asset Replacement, and Facility Operator Profit Allocation*

*Years Ended December 31, 2012 and 2011*

	2012	2011
Revenues:		
Catering	\$ 3,419,960	3,164,050
Beer and wine concession	555,948	607,441
Building rent	902,442	896,421
Vending and concession	136,288	155,707
Equipment rental	177,886	181,856
Ticket and novelty commission	23,192	39,475
Other	9,823	37,518
Total revenues	5,225,539	5,082,468
Expenses:		
Direct operating costs:		
Salaries, wages, and related expenses	2,095,695	2,265,932
Catering:		
Cost of goods sold	1,018,412	1,085,324
Beer and wine	108,700	114,860
Other catering	90,480	85,812
Utilities	468,946	545,726
Other	768,229	711,642
Total direct operating costs	4,550,462	4,809,296
Indirect operating costs	92,076	59,677
Management fees	156,031	141,785
Total expenses	4,798,569	5,010,758
Excess of revenues over expenses before provision for asset replacement and facility operator profit allocation	426,970	71,710
Provision for asset replacement	211,043	203,718
Excess (deficiency) of revenues over expenses and provision for asset replacement, and facility operator profit allocation	\$ 215,927	(132,008)

See accompanying notes to financial statements.

**Dena'ina Civic and Convention Center**

*Statement of Changes in Balance Due (to) from  
Anchorage Convention and Visitors Bureau dba Visit Anchorage*

*Years Ended December 31, 2012 and 2011*

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Balance, January 1, 2011	\$ 22,128
Payments from ACVB	(637,540)
MOA reserve paid by ACVB	(116,943)
Operating transfers to ECC	314,581
Expenses and provision for asset replacement in excess of revenues	<u>132,008</u>
Balance, December 31, 2011	(285,766)
Payments from ACVB	(144,753)
MOA reserve paid by ECC	(76,742)
MOA reserve paid on behalf of ECC	31,885
Operating transfers to ECC	495,108
Revenues and provision for asset replacement in excess of expenses	<u>(215,927)</u>
Balance, December 31, 2012	<u>\$ (196,195)</u>

See accompanying notes to financial statements.

**Dena'ina Civic and Convention Center**

*Statements of Cash Flows*

*Years Ended December 31, 2012 and 2011*

	2012	2011
Cash flows from operating activities:		
Excess of revenues over (under) expenses, provision for asset replacement, and facility operator profit allocation:	\$ 215,927	(132,008)
Adjustments for non-cash activity:		
MOA reserve paid by ACVB	-	116,943
Egan Center payments on behalf of the Dena'ina Center	76,742	-
(Increase) decrease in assets:		
Accounts receivable:		
Trade	(83,141)	(177,518)
Related party	196,739	(183,513)
Prepays	(24,632)	(4,279)
Inventory	(23,939)	(740)
Increase (decrease) in liabilities:		
Accounts payable:		
Trade	(92,802)	269,890
Related party	(6,009)	756
Accrued management fee	14,246	44,627
Accrued payroll and related benefits	17,566	78,258
Unearned revenue	(5,403)	(86,024)
MOA reserve payable to ACVB	3,653	9,822
Net cash provided (used) by operating activities	288,947	(63,786)
Cash flows from financing activities:		
Transfers to William A. Egan Civic and Convention Center	(495,108)	(314,581)
Payments on behalf of William A. Egan Civic and Convention Center	(31,885)	-
Payments from ACVB	144,753	637,540
Net cash (used) provided in financing activities	(382,240)	322,959
(Decrease) increase in cash	(93,293)	259,173
Cash, beginning of year	391,288	132,115
Cash, end of year	\$ 297,995	391,288

See accompanying notes to financial statements.

# DENA'INA CIVIC AND CONVENTION CENTER

## Notes to the Financial Statements

Years Ended December 31, 2012 and 2011

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Dena'ina Civic and Convention Center (DCC) is owned by the Municipality of Anchorage (Municipality) and was built to host conventions, meetings, and exhibitions. DCC began operations in October 2008. DCC's operations are managed by SMG of Alaska, Inc. (SMG) on behalf of the Municipality under a Management Agreement (Agreement) with the Anchorage Convention and Visitors Bureau dba Visit Anchorage (ACVB), which in turn operates under a management agreement with the Municipality. SMG provides management services for the William A Egan Civic and Convention Center (ECC) under the same Agreement. Although the Agreement consolidates both DCC and ECC, these financial statements reflect only DCC operations. Any reference to ECC is included in a separately issued financial statement.

The most recent Agreement, entered into January 6, 2011, will expire December 31, 2015, with one option to renew for an additional five years upon mutual agreement of both the parties.

SMG also provides services for the George M. Sullivan Sports Arena and Ben Boeke and Dempsey Anderson Ice Arenas (Municipal facilities) under separate contracts with the Municipality of Anchorage.

#### **Basis of Accounting**

The financial statements include certain operating accounts of DCC, as defined in the Agreement and are not intended to present the financial position or results of operations of DCC. The financial statements are prepared on a basis consistent with generally accepted accounting principles, except for the accounting for property and equipment and long term debt, which are accounted for in accordance with the Agreement.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand as well as cash in checking accounts.

#### **Inventory**

Inventory consists primarily of catering food and beverage and is stated at the lower of cost, on the first-in, first-out basis, or market.

#### **Property and Equipment**

All property, equipment, and improvements of DCC are accounted for by the Municipality as a separate fund. Accordingly, no such assets have been included in the accompanying financial statements.

#### **Revenue Recognition**

Event revenue is recognized by DCC on the day of an event. Accordingly, advance ticket sales and other revenues received in advance are recorded as unearned revenue.

# DENA'INA CIVIC AND CONVENTION CENTER

Notes to the Financial Statements, continued

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

### Reimbursed Expenses

Event lease agreements generally provide that the lessee will directly reimburse DCC for certain costs incurred. Direct operating costs included in the accompanying financial statements for the years ended December 31, 2012 and 2011, are net of such reimbursements totaling \$964,508 and \$838,946, respectively.

### Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect reported amounts of assets and liabilities, disclosures of contingent liabilities, and reported revenues and expenses. Actual financial results may differ from recorded balances

### Comparative Information

Certain amounts from the prior year have been reclassified to conform to the current-year presentation which did not affect the net balance due to Anchorage Convention and Visitors Bureau dba Visit Anchorage.

## NOTE 2 - CASH AND EQUIVALENTS

The Dena'ina Civic and Convention Center cash is maintained at Key Bank. As of December 31, 2012, bank and book balances in the accounts at year end were \$260,184 and \$297,995, respectively. Of the bank balance, only \$250,000 was covered by FDIC insurance. As of December 31, 2011, bank and book balances at year end were \$374,624 and \$391,288, respectively. Of the bank balance, only \$250,000 was covered by FDIC insurance

## NOTE 3 - MANAGEMENT AGREEMENT

SMG is responsible for all catering management and operations for both DCC and ECC under the same management agreement with ACVB.

For the year ended December 31, 2012 and 2011, SMG is entitled to incentive based fees in order to achieve maximum profitability. The fees are based upon the following schedule, and are capped at \$250,000 annually.

Equipment Rentals:	7%
Gross Building rents up to \$1,000,000:	6%
Gross Building rents in excess of \$1,000,000:	10%
Net Box Office Total:	7%
Net Catering Total:	5%
Net Concessions Total:	5%

Amounts owed to SMG under the Agreements are \$156,031 and \$141,785 at December 31, 2012 and 2011, and are reported as accrued management fees.

## DENA'INA CIVIC AND CONVENTION CENTER

### Notes to the Financial Statements, continued

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#### **NOTE 4 – RELATED PARTY TRANSACTIONS**

Related party receivables consist of amounts due to DCC for reimbursement of certain operating costs, equipment rental, and related expenses and cash receipts collected on behalf of DCC, from the other Municipal facilities also management by SMG.

Related party payables include amounts collected by DCC on behalf of the other Municipal facilities, amount due to the Sullivan Arena and ECC for reimbursement of certain operating costs, including payroll and related expenses

The Agreement directs SMG, which also manages the Sullivan Arena, Ben Boeke/Dempsey Anderson Ice Arena's, and DCC, to share personnel between ECC, DCC, and the Arena's where it will serve to reduce the total cost for such expenses taken as a whole. Expenses in accompanying financial statement titled other expenses include annual reimbursement to Sullivan Arena of \$54,000 and \$54,000 in both 2012 and 2011, respectively. Also included in other expenses are costs related to ACVB facilities management of \$46,000 and \$47,099 for the years ended December 31, 2012 and 2011, respectively.

#### **NOTE 5 – DUE TO/FROM THE ANCHORAGE CONVENTION AND VISITORS BUREAU DBA VISIT ANCHORAGE**

In accordance with the Agreement, 4% of revenues are to be remitted to ACVB monthly and held in a reserve for asset replacement. These reserves used for equipment replacements, DCC improvements and capital repairs and maintenance. Expenditures from these reserves require approval by the Municipality contract administrator.

In addition, ACVB will reimburse DCC for projected operating losses (based on monthly operating deficits) not less than quarterly throughout the fiscal year. Surpluses shall be retained to reduce future deficits, except that ACVB may withdraw such surplus funds as it may determine at its sole discretion.

#### **NOTE 6 – CASH AND CUSTOMER CONCENTRATIONS**

Financial instruments that potentially subject DCC to concentration of credit risk consist principally of cash and temporary cash investments and receivables. DCC maintains its cash at one financial institution. This institution has a strong credit rating and management believes credit risk related to these deposits is minimal.

## DENA'INA CIVIC AND CONVENTION CENTER

### Notes to the Financial Statements, continued

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#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

On September 20, 2012 a fatal accident occurred at DCC. The family of the deceased has retained an attorney who sent a standard litigation hold letter demanding production of certain items. SMG's insurer has been put on notice of this potential claim.

There is also a dispute from a patron at an event on March 4, 2012 who claims that civil liberties were violated. Settlement offers have been exchanged in which DCC offered \$2,500 to pay for attorney fees. DCC has not heard from the patron since October of 2012.

DCC has not booked a liability for either of the previously mentioned issues, nor can one be reasonably estimated at this time.

#### **NOTE 8 – SUBSEQUENT EVENTS**

Subsequent event procedures have been performed as of March 27, 2013. This is also the date the financials were available to be issued.

2012 Convention Center Combined Audted Financials Worksheet

	2012 Budget			2012 Actual		
	Dena'ina	Egan	Totals	Dena'ina	Egan	Totals
Revenues	4,315,626	2,105,515	6,421,141	5,225,539	2,015,039	7,240,578
Expenses	4,637,748	2,673,936	7,311,684	4,798,569	2,408,019	7,206,588
Capital						
Reserves	172,624	84,221	256,845	211,043	81,709	292,752
Total Expenses	4,810,372	2,758,157	7,568,529	5,009,612	2,489,728	7,499,340
Net						
Profit/Loss	(494,746)	(652,642)	(1,147,388)	215,927	(474,689)	(258,762)

	2011 Budget			2011 Actual		
	Dena'ina	Egan	Totals	Dena'ina	Egan	Totals
Revenues	5,005,877	1,760,639	6,766,516	5,082,468	1,713,689	6,796,157
Expenses	4,944,626	2,548,585	7,493,211	5,010,758	2,335,374	7,346,132
Capital						
Reserves	200,235	70,426	270,661	203,718	68,548	272,266
	5,144,861	2,619,011	7,763,872	5,214,476	2,403,922	7,618,398
Net						
Profit/Loss	(138,984)	(858,372)	(997,356)	(132,008)	(690,233)	(822,241)