KPMG

HAWAII CONVENTION CENTER

Special-Purpose Financial Statements
and Supplementary Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII CONVENTION CENTER

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KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying special-purpose balance sheets of the Hawaii Convention Center as of June 30, 2010 and 2009, and the related special-purpose statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These special-purpose financial statements are the responsibility of the Hawaii Convention Center's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hawaii Convention Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of complying with the management agreement between the Hawaii Tourism Authority and SMG as described in note 2 to special-purpose financial statements, and are not intended to be a presentation in conformity with U.S. generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hawaii Convention Center as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, on the basis of accounting described in note 2.

Management's discussion and analysis on pages 3 through 7 is not a required part of the special-purpose financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor, State of Hawaii, the boards of directors and managements of the Hawaii Tourism Authority and SMG, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 30, 2010

As financial management of the Hawaii Convention Center (the Center), we offer readers of these special-purpose financial statements this narrative overview and analysis of the financial activities of the Center for the fiscal years ended June 30, 2010 and 2009. SMG, a private management company, is contracted by the State of Hawaii (the State) through the Hawaii Tourism Authority (the Authority) to operate the Center. This discussion and analysis is designed to assist the reader in focusing on the significant financial activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the special-purpose financial statements as a whole.

Overview of the Special-Purpose Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's special-purpose financial statements, which comprises the special-purpose financial statements and the notes to special-purpose financial statements. This report also contains other supplementary information concerning the Center's revenues, expenses, and changes in net assets.

Special-Purpose Financial Statements

The special-purpose financial statements are designed to provide readers with a broad overview of the Center's finances in a manner similar to a private-sector business. The special-purpose financial statements have been prepared pursuant to the provisions of the management agreement between the Authority and SMG and are intended to present the financial position, changes in net assets, and cash flows of only that portion of the Authority that is attributable to the transactions of the Center based upon the accounting records maintained by SMG. The Center's operations are reported under a flow of economic resources measurement focus using the accrual basis of accounting. The accounting policies of the Center conform in all material respects with U.S. generally accepted accounting principles, except that the property, building, furniture, and equipment used in the Center's operations, and related depreciation expense, as well as debt and the related interest expense, are not reflected on the accompanying special-purpose financial statements. Those assets, liabilities, and related expenses are reflected on the special-purpose financial statements of the Authority.

The special-purpose balance sheets present information on the Center's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating. Net assets increase when revenues and contributions from the State exceed expenses and funds remitted to the State. Increases to assets without a corresponding increase to liabilities result in increased net assets, which indicate an improved financial position.

The special-purpose statements of revenues, expenses, and changes in net assets present information showing how an entity's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The special-purpose statements of cash flows present the inflows and outflows of cash for the year and are summarized by operating, financing, and investing activities. The statements are prepared using the direct method of cash flows and, therefore, present gross rather than net amounts for the year's operating activities.

(Continued)

Notes to Special-Purpose Financial Statements

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

Supplementary Information

In addition to the special-purpose financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's revenues, expenses, and changes in net assets.

Financial Analysis

Net assets may serve, over time, as a useful indicator of an entity's financial position. In the case of the Center, assets exceeded liabilities by $12,248,674 at June 30, 2010, and net assets increased by $1,262,232 or 11% from June 30, 2009, and increased by $4,997,860 or 83% from June 30, 2008 to June 30, 2009. The change in net assets is attributable to Convention Center operations and sales and marketing activities and the funding of future sales and marketing efforts and capital improvements. All net assets were unrestricted.

By far, the largest portion of the Center's assets at June 30, 2010 was cash of $13,514,121. The cash is to be utilized to pay for liabilities at June 30, 2010, including accounts payable of $732,772, revenues collected for the State of $533,997, and accumulation of advance deposits received from clients for future events in the amount of $356,286. The cash will also be used for future sales and marketing efforts and capital improvements.

By far, the largest portion of the Center's assets at June 30, 2009 was cash of $12,173,310. The cash is to be utilized to pay for liabilities at June 30, 2009, including accounts payable of $561,664, revenues collected for the State of $888,831, and accumulation of advance deposits received from clients for future events in the amount of $284,931. The cash will also be used for future sales and marketing efforts and capital improvements.

Hawaii Convention Center

Net Assets

	June 30			2010 – 2009		2009 – 2008	
	2010	**2009**	**2008**	**Increase (decrease)**	**Percentage change**	**Increase (decrease)**	**Percentage change**
Total assets	$ 14,366,945	13,238,857	10,772,375	1,128,088	9%	$ 2,466,482	23%
Total liabilities	2,118,271	2,252,415	4,783,793	(134,144)	(6)	(2,531,378)	(53)
Unrestricted net assets	$ 12,248,674	10,986,442	5,988,582	1,262,232	11%	$ 4,997,860	83%

Hawaii Convention Center

Changes in Net Assets

	June 30			2010 – 2009		2009 – 2008	
	2010	2009	2008	Increase (decrease)	Percentage change	Increase (decrease)	Percentage change
Operating revenues:							
Food and beverage	$ 4,595,398	7,263,148	8,650,384	(2,667,750)	(37)%	$ (1,387,236)	(16)%
Rental income	2,478,592	2,586,395	3,401,374	(107,803)	(4)	(814,979)	(24)
Events and other	1,273,351	1,480,611	1,728,210	(207,260)	(14)	(247,599)	(14)
Total operating revenues	8,347,341	11,330,154	13,779,968	(2,982,813)	(26)	(2,449,814)	(18)
Cost of goods sold	2,848,928	4,161,369	4,929,999	(1,312,441)	(32)	(768,630)	(16)
Gross profit	5,498,413	7,168,785	8,849,969	(1,670,372)	(23)	(1,681,184)	(19)
Other operating expenses:							
Convention center operations	8,859,008	10,453,981	10,734,493	(1,594,973)	(15)	(280,512)	(3)
Sales and marketing	6,048,279	5,332,708	6,751,409	715,571	13	(1,418,701)	(21)
Total other operating expenses	14,907,287	15,786,689	17,485,902	(879,402)	(6)	(1,699,213)	(10)
Operating loss	(9,408,874)	(8,617,904)	(8,635,933)	(790,970)	9	18,029	—
Interest income	83,406	83,720	328,424	(314)	—	(244,704)	(75)
Loss before contributions and remittance	(9,325,468)	(8,534,184)	(8,307,509)	(791,284)	9	(226,675)	3
Contributions from the Hawaii Tourism Authority	19,237,497	24,666,489	24,778,331	(5,428,992)	(22)	(111,842)	—
Remittance to the Hawaii Tourism Authority for completed events revenue	(8,649,797)	(11,134,445)	(14,022,527)	2,484,648	(22)	2,888,082	(21)
Change in net assets	1,262,232	4,997,860	2,448,295	(3,735,628)	(75)%	$ 2,549,565	104%
Net assets at beginning of year	10,986,442	5,988,582	3,540,287				
Net assets at end of year	$ 12,248,674	10,986,442	5,988,582				

Operating revenues include rental income, food and beverage, events, and other revenues. Operating revenues decreased by $2,982,813 or 26% to $8,347,341 in fiscal year 2010. Operating revenues decreased by $2,449,814 or 18% to $11,330,154 in fiscal year 2009.

The majority of operating revenues are generated from food and beverage operations. Food and beverage revenues decreased by $2,667,750 or 37% to $4,595,398 in fiscal year 2010. Food and beverage revenues decreased by $1,387,236 or 16% to $7,263,148 in fiscal year 2009.

Typically larger off-shore convention type events generate more revenue for the Center as opposed to meetings and other smaller events. There were 153 events in the Center in the fiscal year 2010, of which 8 were convention type events, as compared to 172 events in the fiscal year 2009, of which 12 were convention type events, and 184 events in the fiscal year 2008, of which 18 were convention type events resulting in a decrease in operating revenues. In addition, with the global and economic crisis occurring, we experienced the loss of the corporate market in fiscal year 2010 as compared to fiscal year 2009 where we had 2 corporate events and fiscal year 2008 where we had 3 corporate events.

Convention Center Operations

Total operating expenses (cost of goods sold and other operating expenses) for convention center operations were $11,707,936 and $14,615,350 in fiscal year 2010 and 2009, respectively. This represents a decrease of $2,907,414 or 20% and a decrease of $1,049,142 or 7% from fiscal years 2009 and 2008, respectively. A breakdown of changes in individual expense categories is as follows:

	2010 – 2009		2009 – 2008	
	Increase (decrease)	**Percentage change**	**Increase (decrease)**	**Percentage change**
Cost of goods sold	$ (1,312,441)	(32)%	$ (768,630)	(16)%
Salaries, wages, payroll taxes, and benefits	(395,311)	(8)	(5,407)	—
Contract labor	(558,790)	(49)	(72,654)	(6)
Repairs and maintenance	(94,601)	(17)	(17,575)	(3)
Building operations	(193,903)	(33)	(24,919)	(4)
Utilities	(128,271)	(7)	(125,219)	(6)
Other	(224,097)	(20)	(34,738)	(3)
	$ (2,907,414)		$ (1,049,142)	

The decrease in the cost of goods sold of $1,312,441 or 32% in fiscal year 2010 from fiscal year 2009 is directly related to the decrease in the number of convention type events held in the Center as well as the decrease in the food and beverage revenues. There were four fewer convention type events in fiscal year 2010 than in fiscal year 2009. The decrease in salaries, wages, payroll taxes, and benefits of $395,311 or 8% is primarily due to vacancies in certain positions during the fiscal year 2010. In addition, employer matching 401k contributions was suspended effective January 1, 2009. Certain contract labor rates increased during fiscal year 2010, but overall contract labor decreased by $558,790 or 49%, as a result of the decrease in the number of convention type events at the Center from fiscal year 2009. Larger events are typically more complex in their programs and needs. Utilities decreased by $128,271 or 7% as a result of the rising cost of oil offset by lower electricity usage related to the decrease in convention type events from fiscal year 2009. Other expenses decreased by $224,097 or 20% due to less furniture, fixtures, and equipment purchases, and other in comparison to fiscal year 2009.

The decrease in the cost of goods sold of $768,630 or 16% in fiscal year 2009 from fiscal year 2008 is directly related to the decrease in the number of convention type events held in the Center as well as the decrease in the food and beverage revenues. There were six fewer convention type events in fiscal year 2009 than in fiscal year 2008. The decrease in salaries, wages, payroll taxes, and benefits of $5,407 or 0.1% is primarily due to vacancies in certain positions during the end of fiscal year 2009. Certain contract labor rates increased during fiscal year 2009, but overall contract labor decreased by $72,654 or 6%, as a result of the decrease in the number of convention type events at the Center from fiscal year 2008. Larger events are typically more complex in their programs and needs. Effective June 13, 2007, Act 173 was passed, which exempts from the general excise tax, amounts received by SMG for reimbursement of costs or advances made pursuant under the management agreements. General excise tax was not paid on reimbursements of expenditures incurred in fiscal year 2009 or 2008. Utilities decreased by $125,219 or 6% as a result of the rising cost of oil offset by lower electricity usage related to the decrease in convention type events from fiscal year 2008. Other expenses decreased by $34,738 or 3% due to less furniture, fixtures, and equipment purchases, a decrease in insurance expenses, and other in comparison to fiscal year 2008.

Sales and Marketing

Sales and marketing expenses increased by $715,571 or 13% to $6,048,279 in fiscal year 2010. The sales and marketing expenses decreased by $1,418,701 or 21% to $5,332,708 from fiscal year 2008 to 2009.

The major expenses for the fiscal year 2010 are in salaries and wages and advertising and promotion with $1,438,018 and $3,291,716, respectively. The Center continues to position itself in the market with a sales force locally as well as a sales team and offices on the mainland in three key markets, the West, Mid West, and East coasts. In July 2009, the West and Mid West offices were closed. Of the $3,291,716 used for advertising and promotion, $2,320,154 was used from the Marketing Flexibility Fund. The uses of the fund were for rent incentives and destination support for groups whose events were held in fiscal year 2010, including American Society of Plan Biologists, International Society for Prevention of Child Abuse and Neglect, American Society of Human Genetics and American Dental Association and Christian Congregation of Jehovah Witnesses. Other uses of the fund were for promotional support for groups whose events will be held at the Center in the future such as the Alzheimer's Association, American Academy of Periodontology, International Federation of Employee Benefit Plans, Association for Asian Studies, National Veteran Golden Age Games, American Association of Orthodontists, and American Psychiatric Association. The increase in sales and marketing expenses from fiscal year 2009 to fiscal year 2010 of $715,571 is primarily due to increases in the use of Marketing Flexibility Fund.

The decrease from fiscal year 2008 to fiscal year 2009 of $1,418,701 was primarily due to decreases in advertising and promotion and travel and entertainment. Of the $2,093,018 used for advertising and promotion, $1,446,615 was used from the Marketing Flexibility Fund. The uses of the fund were for rent incentives and destination support for groups whose events were held in fiscal year 2010, including American Podiatric Medical Association, American Society of Brewing Chemists, American Institute of Aeronautics Association, Sun Microsystems, Best Western International, Inc., Sweet Adelines International, American Association of Geriatric Psychiatry, International Society for Magnetic Resonance in Medicine, Medical Library Association, and American Academy of Pediatric Dentistry.

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Special-Purpose Balance Sheets

June 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents (notes 3 and 7)	$ 13,514,121	12,173,310
Accounts receivable	186,024	451,630
Due from the Hawaii Tourism Authority (note 2)	158,071	—
Inventories	180,557	207,262
Prepaid expenses	318,381	355,100
Deposits and other	9,791	51,555
Total assets	$ 14,366,945	13,238,857
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 732,772	561,664
Due to the Hawaii Tourism Authority (note 2)	533,997	888,831
Accrued compensation	493,450	515,274
Advance deposits (note 5)	323,995	226,593
Other	1,766	1,715
Total current liabilities	2,085,980	2,194,077
Advance deposits (note 5)	32,291	58,338
Total liabilities	2,118,271	2,252,415
Commitments and contingencies (notes 4, 5, 6, 7, 8, 9, and 10)		
Unrestricted net assets	12,248,674	10,986,442
Total liabilities and net assets	$ 14,366,945	13,238,857

See accompanying notes to special-purpose financial statements.

HAWAII CONVENTION CENTER

Special-Purpose Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

		2010	2009
Operating revenues, net (note 2):			
Food and beverage	$	4,595,398	7,263,148
Rental income		2,478,592	2,586,395
Events		1,141,851	1,260,574
Other		131,500	220,037
Total operating revenues		8,347,341	11,330,154
Operating expenses (note 2):			
Cost of goods sold:			
Food and beverage		1,276,174	1,648,128
Direct		1,572,754	2,513,241
Total cost of goods sold		2,848,928	4,161,369
Other operating expenses (notes 6 and 8):			
Salaries and wages		5,285,359	5,896,812
Advertising and promotion		3,305,038	2,122,751
Utilities		1,708,517	1,844,112
Payroll taxes and benefits (note 10)		1,195,088	1,300,092
Contract labor		840,529	1,423,101
Travel and entertainment		571,730	632,038
Repairs and maintenance		481,627	576,228
Management fee (note 4)		460,992	443,261
Building operations		395,828	589,731
Insurance		204,423	146,314
Community relations		106,615	105,360
Rent (note 8)		84,499	127,117
Computer		45,964	39,761
Professional fees		43,622	112,609
Dues and subscriptions		34,244	26,451
Printing and stationery		24,938	73,578
General excise tax		22,926	33,923
Postage		20,275	21,291
Office supplies		19,646	22,437
Employee training		4,292	26,471
Miscellaneous		51,135	223,251
Total other operating expenses		14,907,287	15,786,689
Total operating expenses		17,756,215	19,948,058
Operating loss		(9,408,874)	(8,617,904)
Nonoperating revenues:			
Interest income		83,406	83,720
Loss before contributions and remittance		(9,325,468)	(8,534,184)
Contributions from the Hawaii Tourism Authority (notes 2, 6, and 7)		19,237,497	24,666,489
Remittance to the Hawaii Tourism Authority for completed events revenue (note 2)		(8,649,797)	(11,134,445)
Change in net assets		1,262,232	4,997,860
Net assets at beginning of year		10,986,442	5,988,582
Net assets at end of year	$	12,248,674	10,986,442

See accompanying notes to special-purpose financial statements.

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Special-Purpose Statements of Cash Flows

Years ended June 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Cash received from customers	$	8,684,302	10,741,593
Cash payments to suppliers of goods and services		(10,999,421)	(13,201,127)
Cash payments to employees		(6,502,271)	(7,237,858)
Net cash used in operating activities		(8,817,390)	(9,697,392)
Cash flows from noncapital financing activities:			
Contributions received from the Hawaii Tourism Authority		19,079,426	25,322,317
Funds remitted to the Hawaii Tourism Authority		(9,004,631)	(12,891,541)
Net cash provided by noncapital financing activities		10,074,795	12,430,776
Cash flows provided by investing activity:			
Interest income		83,406	83,720
Net increase in cash and cash equivalents		1,340,811	2,817,104
Cash and cash equivalents at beginning of year		12,173,310	9,356,206
Cash and cash equivalents at end of year	$	13,514,121	12,173,310
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(9,408,874)	(8,617,904)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease (increase) in assets:			
Accounts receivable		265,606	(201,364)
Inventories		26,705	10,646
Prepaid expenses		36,719	(74,212)
Deposits and other assets		41,764	(40,276)
Increase (decrease) in liabilities:			
Accounts payable		171,108	(345,378)
Accrued compensation		(21,824)	(40,954)
Advance deposits		71,355	(387,197)
Other liabilities		51	(753)
Total adjustments		591,484	(1,079,488)
Net cash used in operating activities	$	(8,817,390)	(9,697,392)

See accompanying notes to special-purpose financial statements.

(1) Organization

The Hawaii Convention Center (the Center), which opened to the general public in June 1998, is used for a variety of events, including conventions and trade shows, public shows, and spectator events. The Center offers approximately 350,000 square feet of rentable space, including 51 meeting rooms.

Effective July 1, 2000, the Hawaii Tourism Authority, State of Hawaii (the Authority), is responsible for the operation, management, and maintenance of the Center. The Authority is a discretely presented component unit of the State of Hawaii. The Center is reported as a special revenue fund of the Authority.

(2) Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in interpreting the special-purpose financial statements. These policies are considered essential and should be read in conjunction with the special-purpose financial statements.

(a) Financial Statement Presentation and Basis of Accounting

The special-purpose financial statements have been prepared pursuant to the provisions of the management agreement between the Authority and SMG (note 4) and are intended to present the financial position, changes in net assets, and cash flows of only that portion of the Authority that is attributable to the transactions of the Center based upon the accounting records maintained by SMG. The Center's operations are reported on a flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

These special-purpose financial statements are prepared in conformity with U.S. generally accepted accounting principles for state and local governments as prescribed by the Governmental Accounting Standards Board, except that the property, building, furniture, and equipment used in the Center's operations, and related depreciation expense, as well as debt used to finance such capital assets and the related interest expense, are not reflected on the accompanying special-purpose financial statements. Those assets, liabilities, and related expenses are reflected on the special-purpose financial statements of the Authority.

The Center has elected not to apply any Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989.

(b) Operating Revenues and Expenses

The Center distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations, management, and maintenance of the Center. Operating revenues include charges for services. Operating expenses include costs of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) Classification of Current and Noncurrent Assets and Liabilities

The Center considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the special-purpose balance sheet date. Liabilities that reasonably can be expected, as part of normal Center business operations, to be liquidated within 12 months of the special-purpose balance sheet date are considered to be current. All other assets and liabilities are considered to be noncurrent.

(d) Cash and Cash Equivalents

For purposes of the special-purpose statements of cash flows, the Center considers currency on hand, savings, demand deposits, and certificates of deposits purchased with an original maturity of three months or less to be cash and cash equivalents.

(e) Due from/to the Hawaii Tourism Authority

Due from the Authority represents expenses to be reimbursed by the Authority. Due to the Authority represents revenues on completed events and contributions that are required to be remitted to the Authority. These amounts are required to be accounted for separately and are not netted together for financial statement reporting purposes.

(f) Revenue Recognition

Operating revenues include charges for services, which are recognized when services are provided. The Center’s accounts receivable are due from companies in various industries. Credit is extended based on evaluation of the customer’s financial condition and collateral is not required. Accounts receivable are due within 30 days and are at stated amounts due from customers. The allowance for doubtful accounts is the Center’s best estimate of the amount of probable losses in the Center’s existing accounts receivable. Management determines the allowance based on a review of each specific customer accounts receivable balance. Accounts outstanding longer than 90 days are considered past due and delinquency letters are sent. The Center writes off accounts receivable when it determines they are uncollectible.

(g) Inventory

Inventory held by the Center comprises food and beverage items. Inventory is valued at the lower of cost (first-in, first-out method) or market.

(h) Net Assets

All net assets are classified as unrestricted.

(i) Discounts

Operating revenues are net of sales discounts amounting to $473,755 and $827,369 for the years ended June 30, 2010 and 2009, respectively.

(j) Advertising Expenses

The Center expenses costs of advertising as incurred.

(k) Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the 2010 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(l) Use of Estimates

The preparation of the special-purpose financial statements, in accordance with the terms of the management agreement, requires management of the Center to make estimates and assumptions that affect the amounts reported in the special-purpose financial statements and accompanying notes. Actual results could differ from those estimates.

(3) Cash and Cash Equivalents

The Center maintains cash at a financial institution located in Hawaii and in an investment sweep account with the same financial institution. At June 30, 2010 and 2009, the carrying amount of the Center's deposits was $13,514,121 and $12,173,310, respectively, and the bank balance was $13,532,063 and $12,341,526, respectively. Of the bank balance at June 30, 2010 and 2009, $250,000 was insured by the Federal Deposit Insurance Corporation and $13,282,063 and $12,091,526, respectively, was uninsured and uncollateralized. Accordingly, these deposits were exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it.

(4) Management Agreement

The Center is managed and operated by SMG under a management agreement dated June 28, 1996, as amended. The term of the original agreement was from June 28, 1996 to June 30, 2001 with two two-year option periods through June 30, 2005. In 2001, the first two-year option period was exercised by the Authority. Effective January 1, 2003, the Authority and SMG renegotiated the terms of the management agreement and extended the term of the agreement through June 30, 2006 with two five-year option periods through June 30, 2016. In June 2005, the Authority approved SMG's option to extend the term of the agreement through June 30, 2011.

The management fee for the years ended June 30, 2010 and 2009 amounted to $460,992 and $443,261, respectively. The management fee for future years is based on the preceding years' management fee with escalation at the rate of either 4% or the rate of change in the Consumer Price Index [all Urban Consumers] (base year 1982 – 84 = 100) for Honolulu as published by the United States Department of Labor, Bureau of Labor Statistics, whichever is lower.

SMG is on a cost-reimbursement contract whereby they are reimbursed by the Authority for costs incurred in operating the Center.

(5) License and Food and Beverage Agreements

At June 30, 2010 and 2009, various clients have contracts with the Center to reserve space for future conventions and events to be held at the Center. These clients signed license agreements with the Center, which require rental payments in advance. In addition, clients may be required to make payments for food and beverage in advance. At June 30, 2010 and 2009, the Center estimates approximately $3,259,669 and $3,768,892, respectively, in future revenues, of which $356,286 and $284,931, respectively, were collected in advance and recorded as advance deposits on the special-purpose balance sheets.

(6) Sales and Marketing

In accordance with Act 253 of the 2002 Session Laws of Hawaii, the Center assumed responsibility for the advertisement and promotion of the Center effective January 1, 2003. In an effort to increase its sales and marketing efforts, the Center entered into an agreement with the Authority whereby the Authority agreed to provide additional funding to the Center. The term on the agreement is from January 1, 2003 through June 30, 2006 with two five-year option periods through June 30, 2016. In June 2005, the Authority approved the Center's option to extend the terms of the agreement through June 2011. During the year ended June 30, 2010, the Center received $19,237,497 from the Authority, of which approximately $6,000,000 was required to be spent on sales and marketing. During the year ended June 30, 2009, the Center received $24,666,489 from the Authority, of which approximately $6,000,000 was required to be spent on sales and marketing. During the years ended June 30, 2010 and 2009, the Center's sales and marketing expenses were $6,049,846 and $5,332,708, respectively. In accordance with the agreement between the Authority and the Center, the Center is not required to remit the unspent funds back to the Authority provided that the unspent funds be used for sales and marketing in subsequent years and approved by the Authority's board of directors. These sales and marketing costs are included as operating expenses in the Center's special-purpose statements of revenues, expenses, and changes in net assets for the years ended June 30, 2010 and 2009.

(7) Capital Improvements

Expenditures for property, building, and equipment are recorded as a reduction of contributions from the State since such capital assets are not recorded on the Center's special-purpose balance sheets (note 2). Expenditures for property, building, and equipment were $1,423,419 and $2,858,359 as of June 30, 2010 and 2009, respectively.

In 2010 and 2009, the Center received $3,000,000 and $6,000,000, respectively, from the Authority to be used for emergency capital improvements, repair or maintenance purchases, and on various capital improvement projects. The Center is not required to remit unspent funds back to the Authority provided that the unspent funds be used for capital improvements. The Center had $9,729,553 in unspent funds at June 30, 2010. As of June 30, 2010, the Center had remaining commitments relating to the acquisition of capital assets of $469,000.

(8) Commitments

The Center entered into various contractual agreements relating to public relations support, digital phone services, and the maintenance of the facility. As of June 30, 2010, the Center had remaining commitments under these contracts as follows:

Year ending June 30:		
2011	$	420,000
Total remaining commitments under contractual agreements	$	420,000

The Center conducts a portion of its operations utilizing leased facilities for sales offices under noncancelable operating leases expiring in 2011. Rent expense for all operating leases for the years ended June 30, 2010 and 2009 was $84,499 and $127,117, respectively. Future minimum rental payments required for all noncancelable operating leases at June 30, 2010 are as follows:

Year ending June 30:		
2011	$	12,000
Total remaining lease commitments	$	12,000

(9) Contingencies

The Center is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Center's assets and liabilities, results of operations, or liquidity.

(10) Pension Plan

The Center has a defined contribution pension plan for all employees meeting service, age, and employment status requirements. The Center contributes an amount equal to 66⅔% on up to the first 5% of employee's contributions and may make discretionary matching contributions of a percentage, if any, to be determined annually based on a percentage of a participating employee's annual salary at the end of each calendar year. Contributions to the plan amounted to $0 and $85,241 during the years ended June 30, 2010 and 2009, respectively. Effective January 1, 2009, the employer matching contributions were suspended.

(11) Subsequent Events

The Center has evaluated subsequent events from the special-purpose balance sheet date through August 30, 2010, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

SUPPLEMENTARY INFORMATION

Schedule 1

HAWAII CONVENTION CENTER

Schedule of Changes in Net Assets

Years ended June 30, 2010 and 2009

	Contributions from the Hawaii Tourism Authority	Accumulated deficit	Total
Balance at June 30, 2008	$ 71,211,386	(65,222,804)	5,988,582
Loss before contributions and funds remitted	—	(8,534,184)	(8,534,184)
Contributions from the Hawaii Tourism Authority	24,666,489	—	24,666,489
Remittance to the Hawaii Tourism Authority for completed events revenue	(11,134,445)	—	(11,134,445)
Balance at June 30, 2009	84,743,430	(73,756,988)	10,986,442
Loss before contributions and funds remitted	—	(9,325,468)	(9,325,468)
Contributions from the Hawaii Tourism Authority	19,237,497	—	19,237,497
Remittance to the Hawaii Tourism Authority for completed events revenue	(8,649,797)	—	(8,649,797)
Balance at June 30, 2010	$ 95,331,130	(83,082,456)	12,248,674

See accompanying independent auditors' report.

HAWAII CONVENTION CENTER

Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

	Convention Center operations	Sales and marketing	Total
Operating revenues, net:			
Food and beverage	$ 4,595,398	—	4,595,398
Rental income	2,478,592	—	2,478,592
Events	1,141,851	—	1,141,851
Other	130,601	899	131,500
Total operating revenues	8,346,442	899	8,347,341
Cost of goods sold:			
Food and beverage	1,276,174	—	1,276,174
Direct	1,572,754	—	1,572,754
Total cost of goods sold	2,848,928	—	2,848,928
Gross profit	5,497,514	899	5,498,413
Other operating expenses:			
Salaries and wages	3,847,341	1,438,018	5,285,359
Advertising and promotion	13,322	3,291,716	3,305,038
Utilities	1,677,603	30,914	1,708,517
Payroll taxes and benefits	966,611	228,477	1,195,088
Contract labor	577,940	262,589	840,529
Travel and entertainment	13,560	558,170	571,730
Repairs and maintenance	469,651	11,976	481,627
Management fee	460,992	—	460,992
Building operations	395,828	—	395,828
Insurance	204,423	—	204,423
Community relations	53,089	53,526	106,615
Rent	—	84,499	84,499
Computer	28,725	17,239	45,964
Professional fees	38,964	4,658	43,622
Dues and subscriptions	14,556	19,688	34,244
Printing and stationery	1,787	23,151	24,938
General excise tax	22,472	454	22,926
Postage	3,999	16,276	20,275
Office supplies	15,341	4,305	19,646
Employee training	4,292	—	4,292
Miscellaneous	48,512	2,623	51,135
Total other operating expenses	8,859,008	6,048,279	14,907,287
Operating loss	(3,361,494)	(6,047,380)	(9,408,874)
Nonoperating revenues:			
Interest income	70,159	13,247	83,406
Loss before contributions and remittance	(3,291,335)	(6,034,133)	(9,325,468)
Contributions from the Hawaii Tourism Authority	13,237,497	6,000,000	19,237,497
Remittance to the Hawaii Tourism Authority for completed events revenue	(8,649,797)	—	(8,649,797)
Change in net assets	$ 1,296,365	(34,133)	1,262,232

See accompanying independent auditors’ report.