HAWAII CONVENTION CENTER

Special-Purpose Financial Statements
and Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII CONVENTION CENTER

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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, 2011 and 2010, 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, 2011 and 2010, 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.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

This report is intended solely for the information and use of the Auditor, State of Hawaii and 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 31, 2011

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, 2011 and 2010. 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 readers 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 comprise 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.

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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 $14,453,817 at June 30, 2011, and assets exceeded liabilities by $12,248,674 at June 30, 2010, and net assets increased by $2,205,143 or 18% from June 30, 2010 to June 30, 2011. 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.

By far, the largest portion of the Center's assets at June 30, 2011 was cash of $4,400,944. The cash is to be utilized to pay for liabilities at June 30, 2011, including accounts payable of $1,377,375, revenues collected for the Authority of $1,193,203, and accumulation of advance deposits received from clients for future events in the amount of $418,014. The cash will also be used for future sales and marketing efforts.

By far, the largest portion of the Center's assets at June 30, 2010 was cash of $3,784,568. 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.

Hawaii Convention Center

Net Assets

	June 30			2011 – 2010		2010 – 2009	
	2011	2010	2009	Increase	Percentage change	Increase (decrease)	Percentage change
Total assets	$ 18,084,034	14,366,945	13,238,857	3,717,089	26%	$ 1,128,088	9%
Total liabilities	3,630,217	2,118,271	2,252,415	1,511,946	71	(134,144)	(6)
Net assets	$ 14,453,817	12,248,674	10,986,442	2,205,143	18%	$ 1,262,232	11%

Hawaii Convention Center

Changes in Net Assets

	June 30			2011 – 2010		2010 – 2009	
	2011	2010	2009	Increase (decrease)	Percentage change	Increase (decrease)	Percentage change
Operating revenues:							
Food and beverage	$ 7,177,478	4,595,398	7,263,148	2,582,080	56%	$ (2,667,750)	(37)%
Rental income	3,840,679	2,478,592	2,586,395	1,362,087	55	(107,803)	(4)
Events and other	1,702,979	1,273,351	1,480,611	429,628	34	(207,260)	(14)
Total operating revenues	12,721,136	8,347,341	11,330,154	4,373,795	52	(2,982,813)	(26)
Cost of goods sold	3,400,129	2,848,928	4,161,369	551,201	19	(1,312,441)	(32)
Gross profit	9,321,007	5,498,413	7,168,785	3,822,594	70	(1,670,372)	(23)
Other operating expenses:							
Convention center operations	10,084,475	8,859,008	10,453,981	1,225,467	14	(1,594,973)	(15)
Sales and marketing	6,867,182	6,048,279	5,332,708	818,903	14	715,571	13
Total other operating expenses	16,951,657	14,907,287	15,786,689	2,044,370	14	(879,402)	(6)
Operating loss	(7,630,650)	(9,408,874)	(8,617,904)	1,778,224	(19)	(790,970)	9
Interest income	38,960	83,406	83,720	(44,446)	(53)	(314)	—
Loss before contributions and remittance	(7,591,690)	(9,325,468)	(8,534,184)	1,733,778	(19)	(791,284)	9
Contributions from Hawaii Tourism Authority	22,339,946	19,237,497	24,666,489	3,102,449	16	(5,428,992)	(22)
Remittance to Hawaii Tourism Authority for completed events revenue	(12,543,113)	(8,649,797)	(11,134,445)	(3,893,316)	45	2,484,648	(22)
Change in net assets	2,205,143	1,262,232	4,997,860	942,911	75%	$ (3,735,628)	(75)%
Net assets at beginning of year	12,248,674	10,986,442	5,988,582				
Net assets at end of year	$ 14,453,817	12,248,674	10,986,442				

Operating revenues include rental income, food and beverage, events, and other revenues. Operating revenues increased by $4,373,795 or 52% to $12,721,136 in fiscal year 2011. Operating revenues decreased by $2,982,813 or 26% to $8,347,341 in fiscal year 2010.

- The majority of operating revenues are generated from food and beverage operations. Food and beverage revenues increased by $2,582,080 or 56% to $7,177,478 in fiscal year 2011. Three repeat events (International Federation of Employee Benefits Plans, American Society of Bone Marrow Transplant, and American Association of Neurology) alone generated 37% of the total food and beverage revenue resulting in three $1 million+ months. Internationally, we hosted our first group from China and two

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repeats from Japan collectively generated over $518,000 or 7% in food and beverage revenue. Food and beverage revenues decreased by $2,667,750 or 37% to $4,595,398 in fiscal year 2010.

Typically larger offshore convention-type events generate more revenue for the Center as opposed to meetings and other smaller events. There were 181 events in the Center in the fiscal year 2011, of which 14 were U.S. convention-type events, as compared to 153 events in the Center in the fiscal year 2010, of which 8 were convention-type events, and 172 events in the fiscal year 2009, of which 12 were U.S. convention-type events resulting in an increase in operating revenues.

Convention Center Operations

Total operating expenses (cost of goods sold and other operating expenses) for convention center operations were $13,484,604 and $11,707,936 in fiscal year 2011 and 2010, respectively. This represents an increase $1,776,668 or 15% and a decrease of $2,907,414 or 20% from fiscal years 2010 and 2009, respectively. A breakdown of changes in individual expense categories is as follows:

	2011 – 2010		2010 – 2009	
	Increase	**Percentage change**	**Decrease**	**Percentage change**
Cost of goods sold	$ 551,201	19%	$ (1,312,441)	(32)%
Salaries, wages, payroll taxes, and benefits	297,410	6	(395,311)	(8)
Contract labor	343,433	59	(558,790)	(49)
Repairs and maintenance	77,615	17	(94,601)	(17)
Building operations	167,727	42	(193,903)	(33)
Utilities	277,287	17	(128,271)	(7)
Other	61,995	7	(224,097)	(20)
	$ 1,776,668		$ (2,907,414)	

The increase in the cost of goods sold of $551,201 or 19% in fiscal year 2011 from fiscal year 2010 is directly related to the increase in the number of convention-type events held in the Center as well as the increase in the food and beverage revenues. There were six more convention-type events in fiscal year 2011 than in fiscal year 2010. The increase in salaries, wages, payroll taxes, and benefits of $297,410 or 6% is primarily due to filling vacancies in certain positions during the fiscal year 2011. In addition, employer matching 401(k) contributions resumed effective January 1, 2011. Overall contract labor increased by $343,433 or 59%, as a result of the increase in the number of convention-type events at the Center from fiscal year 2010. Larger events are typically more complex in their programs and needs. Utilities increased by $277,287 or 17% as a result of the rising cost of oil as well as higher electricity usage related to the increase in convention-type events from fiscal year 2010. Other expenses increased by $61,995 or 7% due to increased overall activity at the Center in comparison to fiscal year 2010.

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 of 8% is primarily due to vacancies in certain positions during the fiscal year 2010. In addition, employer matching 401(k) 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.

Sales and Marketing

Sales and marketing expenses increased by $818,903 or 14% to $6,867,182 in fiscal year 2011. The sales and marketing expenses increased by $717,571 or 13% to $6,048,279 from fiscal year 2009 to 2010.

The major expenses for the fiscal year 2011 are in salaries and wages and advertising and promotion with $1,462,817 and $3,870,055, respectively. The Center continues to position itself in the market with a sales force locally as well as a sales team on the mainland in major markets, the Midwest and East coasts. Of the $3,870,055 used for advertising and promotion, $2,829,781 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 2011, including 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. 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 American Phytopathological Society, Society of American Foresters, American Academy of Periodontology, Asia Pacific Economic Cooperation, American Farm Bureau Federation, Association of Legal Administrators, American Association of Orthodontists, and American Pain Society. The increase in sales and marketing expenses from fiscal year 2010 to fiscal year 2011 of $818,903 is primarily due to increases in the use of the Marketing Flexibility Fund.

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, Midwest, and East coasts. In July 2009, the West and Midwest 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, 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 the Marketing Flexibility Fund.

HAWAII CONVENTION CENTER

Special-Purpose Balance Sheets

June 30, 2011 and 2010

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	4,400,944	3,784,568
Accounts receivable		395,425	145,511
Due from Hawaii Tourism Authority		—	158,071
Inventories		193,110	180,557
Prepaid expenses		636,137	358,894
Deposits and other		721,758	9,791
Total current assets		6,347,374	4,637,392
Restricted cash		11,736,660	9,729,553
Total assets	$	18,084,034	14,366,945
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	1,377,375	732,772
Due to Hawaii Tourism Authority		1,193,203	533,997
Accrued compensation		635,353	493,450
Advance deposits		377,203	323,995
Other		6,272	1,766
Total current liabilities		3,589,406	2,085,980
Advance deposits		40,811	32,291
Total liabilities		3,630,217	2,118,271
Commitments and contingencies			
Unrestricted net assets		2,717,157	2,519,121
Restricted net assets		11,736,660	9,729,553
Total net assets		14,453,817	12,248,674
Total liabilities and net assets	$	18,084,034	14,366,945

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, 2011 and 2010

		2011	2010
Operating revenues, net			
Food and beverage	$	7,177,478	4,595,398
Rental income		3,840,679	2,478,592
Events		1,613,414	1,141,851
Other		89,565	131,500
Total operating revenues		12,721,136	8,347,341
Operating expenses:			
Cost of goods sold:			
Food and beverage		1,322,027	1,276,174
Direct		2,078,102	1,572,754
Total cost of goods sold		3,400,129	2,848,928
Other operating expenses:			
Salaries and wages		5,514,253	5,285,359
Advertising and promotion		3,901,879	3,305,038
Utilities		1,979,127	1,708,517
Payroll taxes and benefits		1,316,335	1,195,088
Contract labor		1,204,151	840,529
Travel and entertainment		762,706	571,730
Building operations		563,555	395,828
Repairs and maintenance		561,874	481,627
Management fee		463,297	460,992
Insurance		171,653	204,423
Community relations		105,612	106,615
Professional fees		79,478	43,622
Rent		62,402	84,499
Dues and subscriptions		37,678	34,244
Computer		30,952	45,964
Printing and stationery		30,373	24,938
General excise tax		25,787	22,926
Office supplies		23,259	19,646
Postage		19,954	20,275
Employee training		17,071	4,292
Miscellaneous		80,261	51,135
Total other operating expenses		16,951,657	14,907,287
Total operating expenses		20,351,786	17,756,215
Operating loss		(7,630,650)	(9,408,874)
Nonoperating revenues:			
Interest income		38,960	83,406
Loss before contributions and remittance		(7,591,690)	(9,325,468)
Contributions from Hawaii Tourism Authority		22,339,946	19,237,497
Remittance to Hawaii Tourism Authority for completed events revenue		(12,543,113)	(8,649,797)
Change in net assets		2,205,143	1,262,232
Net assets at beginning of year		12,248,674	10,986,442
Net assets at end of year	$	14,453,817	12,248,674

See accompanying notes to special-purpose financial statements.

HAWAII CONVENTION CENTER

Special-Purpose Statements of Cash Flows

Years ended June 30, 2011 and 2010

		2011	2010
Cash flows from operating activities:			
Cash received from customers	$	12,532,950	8,684,302
Cash payments to suppliers of goods and services		(13,873,852)	(10,999,421)
Cash payments to employees		(6,688,685)	(6,502,271)
Net cash used in operating activities		(8,029,587)	(8,817,390)
Cash flows from noncapital financing activities:			
Contributions received from Hawaii Tourism Authority		22,498,017	19,079,426
Funds remitted to Hawaii Tourism Authority		(11,883,907)	(9,004,631)
Net cash provided by noncapital financing activities		10,614,110	10,074,795
Cash flows from investing activity:			
Interest income		38,960	83,406
Net increase in cash and cash equivalents		2,623,483	1,340,811
Cash and cash equivalents and restricted cash at beginning of year		13,514,121	12,173,310
Cash and cash equivalents and restricted cash at end of year	$	16,137,604	13,514,121
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(7,630,650)	(9,408,874)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Decrease (increase) in assets:			
Accounts receivable		(249,914)	265,606
Inventories		(12,553)	26,705
Prepaid expenses		(277,243)	36,719
Deposits and other assets		(711,967)	41,764
Increase (decrease) in liabilities:			
Accounts payable		644,603	171,108
Accrued compensation		141,903	(21,824)
Advance deposits		61,728	71,355
Other liabilities		4,506	51
Total adjustments		(398,937)	591,484
Net cash used in operating activities	$	(8,029,587)	(8,817,390)

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 readers 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 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) Discounts

Operating revenues are net of sales discounts amounting to $531,191 and $473,755 for the years ended June 30, 2011 and 2010, respectively.

(i) Advertising Expenses

The Center expenses costs of advertising as incurred.

(j) 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, 2011 and 2010, the carrying amount of the Center's deposits was $16,137,604 and $13,514,121, including $11,736,660 and $9,729,553 of restricted cash, respectively, and the bank balance was $16,484,388 and $13,532,063, respectively. Of the bank balance at June 30, 2011 and 2010, $642,578 and $250,000, respectively, was insured by the Federal Deposit Insurance Corporation and $15,841,810 and $13,282,063, 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. In July 2011, the Authority extended the term of the agreement through June 30, 2012 with a one-year option period through June 30, 2013.

The management fee for the years ended June 30, 2011 and 2010 amounted to $463,297 and $460,992, respectively. The management fee for the next fiscal year ending June 30, 2012 is a base fee of $325,000 plus up to $75,000 if SMG exceeds certain performance measures.

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, 2011 and 2010, 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, 2011 and 2010, the Center estimates approximately $2,749,044 and $3,259,669, respectively, in future revenues, of which $418,014 and $356,286, respectively, were collected in advance and recorded as advance deposits on the special-purpose balance sheets.

(Continued)

(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. In July 2011, the Authority extended the terms of the agreement through June 2012 with a one-year option period through June 30, 2013. During the year ended June 30, 2011, the Center received $22,339,946 from the Authority, of which approximately $6,000,000 was required to be spent on sales and marketing. 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 years ended June 30, 2011 and 2010, the Center's sales and marketing expenses were $6,867,182 and $6,049,846, 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, 2011 and 2010.

(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 $360,385 and $1,423,419 as of June 30, 2011 and 2010, respectively.

In 2011 and 2010, the Center received $3,000,000 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 $11,736,660 in unspent funds at June 30, 2011. As of June 30, 2011, the Center had remaining commitments relating to the acquisition of capital assets of $584,000.

(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, 2011, the Center had remaining commitments under these contracts as follows:

Year ending June 30:		
2012	$	512,000
Total remaining commitments under contractual agreements	$	512,000

The Center conducts a portion of its operations utilizing a leased facility for sales offices under a noncancelable operating leases expiring in 2011. Rent expense for all operating leases for the years ended June 30, 2011 and 2010 was $62,402 and $84,499, respectively. Future minimum rental payments required for the noncancelable operating lease at June 30, 2011 is as follows:

Year ending June 30:		
2012	$	13,200
Total remaining lease commitments	$	13,200

(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 40% 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 $35,543 and $0 during the years ended June 30, 2011 and 2010, respectively. Effective January 1, 2011, the employer matching contributions resumed.

(11) Subsequent Events

The Center has evaluated subsequent events from the special-purpose balance sheet date through August 31, 2011, 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, 2011 and 2010

		Contributions from Hawaii Tourism Authority	Accumulated deficit	Total
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 Hawaii Tourism Authority		19,237,497	—	19,237,497
Remittance to 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
Loss before contributions and funds remitted		—	(7,591,690)	(7,591,690)
Contributions from Hawaii Tourism Authority		22,339,946	—	22,339,946
Remittance to Hawaii Tourism Authority for completed events revenue		(12,543,113)	—	(12,543,113)
Balance at June 30, 2011	$	105,127,963	(90,674,146)	14,453,817

See accompanying independent auditors' report.

Schedule 2

HAWAII CONVENTION CENTER

Schedule of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

	Convention Center operations	Sales and marketing	Total
Operating revenues, net:			
Food and beverage	$ 7,177,478	—	7,177,478
Rental income	3,840,679	—	3,840,679
Events	1,613,414	—	1,613,414
Other	89,565	—	89,565
Total operating revenues	12,721,136	—	12,721,136
Cost of goods sold:			
Food and beverage	1,322,027	—	1,322,027
Direct	2,078,102	—	2,078,102
Total cost of goods sold	3,400,129	—	3,400,129
Gross profit	9,321,007	—	9,321,007
Other operating expenses:			
Salaries and wages	4,051,436	1,462,817	5,514,253
Advertising and promotion	31,824	3,870,055	3,901,879
Utilities	1,954,890	24,237	1,979,127
Payroll taxes and benefits	1,059,926	256,409	1,316,335
Contract labor	921,373	282,778	1,204,151
Travel and entertainment	26,280	736,426	762,706
Building operations	563,555	—	563,555
Repairs and maintenance	547,266	14,608	561,874
Management fee	463,297	—	463,297
Insurance	171,653	—	171,653
Community relations	52,368	53,244	105,612
Professional fees	61,054	18,424	79,478
Rent	—	62,402	62,402
Dues and subscriptions	14,240	23,438	37,678
Computer	24,513	6,439	30,952
Printing and stationery	2,153	28,220	30,373
General excise tax	25,180	607	25,787
Office supplies	20,918	2,341	23,259
Postage	7,159	12,795	19,954
Employee training	16,570	501	17,071
Miscellaneous	68,820	11,441	80,261
Total other operating expenses	10,084,475	6,867,182	16,951,657
Operating loss	(763,468)	(6,867,182)	(7,630,650)
Nonoperating revenues:			
Interest income	33,948	5,012	38,960
Loss before contributions and remittance	(729,520)	(6,862,170)	(7,591,690)
Contributions from Hawaii Tourism Authority	16,339,946	6,000,000	22,339,946
Remittance to Hawaii Tourism Authority for completed events revenue	(12,543,113)	—	(12,543,113)
Change in net assets	$ 3,067,313	(862,170)	2,205,143

See accompanying independent auditors' report.