



**HAWAII CONVENTION CENTER**

Special-Purpose Financial Statements  
and Supplementary Information

December 31, 2014

(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 financial statements of the Hawaii Convention Center, which comprise the special-purpose balance sheet as of December 31, 2014, and the related special-purpose statement of revenue, expenses, and changes in net assets, and cash flows for the year 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 provisions of the management agreement between the Hawaii Tourism Authority and AEG Management HCC, LLC (AEG); 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.

### ***Auditors' 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 special-purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose 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 special-purpose 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 financial position of the Hawaii Convention Center as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended, in accordance with the provisions of the management agreement between the Hawaii Tourism Authority and AEG as described in note 2 to the special-purpose financial statements.



***Basis of Accounting***

We draw attention to note 2 to the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared pursuant to the provisions of the management agreement between the Hawaii Tourism Authority and AEG, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the special purpose financial statements that collectively comprise the Hawaii Convention Center's special-purpose financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

***Restriction on Use***

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 AEG, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Honolulu, Hawaii  
March 21, 2016

## HAWAII CONVENTION CENTER

### Special-Purpose Balance Sheet

December 31, 2014

#### Assets

Current assets:	
Cash and cash equivalents	\$ 4,324,944
Accounts receivable, net of allowance for doubtful accounts	530,134
Prepaid expenses	53,450
Deposits and other assets	6,500
Total current assets	<u>4,915,028</u>
Restricted cash	<u>10,454,239</u>
Total assets	<u>\$ 15,369,267</u>

#### Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 1,296,112
Due to Hawaii Tourism Authority	1,415,588
Accrued compensation	493,743
Advance deposits	378,043
Other liabilities	1,903
Total current liabilities	<u>3,585,389</u>
Commitments and contingencies	
Unrestricted net assets	1,329,639
Restricted net assets	<u>10,454,239</u>
Total net assets	<u>11,783,878</u>
Total liabilities and net assets	<u>\$ 15,369,267</u>

See accompanying notes to special-purpose financial statements.

## HAWAII CONVENTION CENTER

### Special-Purpose Statement of Revenue, Expenses, and Changes in Net Assets

Year ended December 31, 2014

Operating revenue, net:	
Food and beverage	\$ 8,877,039
Rental income	2,025,573
Events	1,903,177
Other	69,139
Total operating revenue	12,874,928
Operating expenses:	
Cost of goods sold:	
Food and beverage	1,492,208
Other direct food and beverage costs	2,158,394
Total cost of goods sold	3,650,602
Other operating expenses:	
Salaries and wages	5,064,812
Utilities	2,766,688
Payroll taxes and benefits	1,246,161
Contract labor	1,183,456
Building operations	760,995
Repairs and maintenance	646,617
Management fee	480,000
Marketing Flexibility Fund	458,649
Promotion	366,942
Meetings and conventions	311,808
Advertising	182,284
Insurance	105,968
Professional fees	57,149
FFE expense	55,377
Travel and entertainment	41,150
Employee training	35,938
Printing and stationery	35,579
Dues and subscriptions	32,749
Office supplies	19,151
Computer	15,755
Postage	6,876
General excise tax	4,974
Rent	4,539
Community relations	3,000
Miscellaneous	280,997
Total other operating expenses	14,167,614
Total operating expenses	17,818,216
Operating loss	(4,943,288)
Nonoperating revenue:	
Interest and dividend income	9,701
Total nonoperating revenue, net	9,701
Loss before contributions and remittance	(4,933,587)
Contributions from Hawaii Tourism Authority	12,811,458
Remittance to Hawaii Tourism Authority for completed events revenue	(7,146,335)
Change in net assets	731,536
Net assets at beginning of year	11,052,342
Net assets at end of year	\$ 11,783,878

See accompanying notes to special-purpose financial statements.

**HAWAII CONVENTION CENTER**  
Special-Purpose Statement of Cash Flows  
Year ended December 31, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 12,573,322
Cash payments to suppliers of goods and services	(10,893,438)
Cash payments to employees	(5,902,945)
Net cash used in operating activities	<u>(4,223,061)</u>
Cash flows from noncapital financing activities:	
Contributions received from Hawaii Tourism Authority	13,353,904
Funds remitted to Hawaii Tourism Authority	(5,730,747)
Net cash provided by noncapital financing activities	<u>7,623,157</u>
Cash flows from investing activities:	
Interest and dividend income	9,701
Net cash provided by investing activities	<u>9,701</u>
Net increase in cash and cash equivalents	3,409,797
Cash and cash equivalents at beginning of year	<u>915,147</u>
Cash and cash equivalents at end of year	<u>\$ 4,324,944</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (4,943,288)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Decrease (increase) in operating assets:	
Accounts receivable	(300,171)
Inventories	141,591
Prepaid expenses	29,949
Deposits and other assets	40,886
Increase (decrease) in operating liabilities:	
Accounts payable	401,972
Accrued compensation	408,028
Advance deposits	(1,435)
Other liabilities	(593)
Total adjustments	<u>720,227</u>
Net cash used in operating activities	<u>\$ (4,223,061)</u>

See accompanying notes to special-purpose financial statements.

## HAWAII CONVENTION CENTER

### Notes to Special-Purpose Financial Statements

December 31, 2014

#### (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 AEG Management HCC, LCC (AEG) (note 3) 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 AEG. The Center's operations are reported on an 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, 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.

##### (b) *Operating Revenue and Expenses*

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



## HAWAII CONVENTION CENTER

### Notes to Special-Purpose Financial Statements

December 31, 2014

**(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 revenue includes 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) Discounts**

Operating revenue is net of sales discounts amounting to \$2,738,892 for the year ended December 31, 2014.

**(h) Advertising Expenses**

The Center expenses costs of advertising as incurred.

**(i) 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. Significant items subject to such estimates and assumptions include the valuation of accounts receivable.

**(3) Management Agreement**

The Center is managed and operated by AEG, a private contractor, under a management agreement dated August 8, 2013, as amended. AEG also assumes responsibility for the Center's sales and marketing efforts. The term of the agreement is from January 1, 2014 to December 31, 2018, with a termination option which may be exercised by the Authority in its sole discretion effective as of December 31, 2016. Notice of exercise of such option shall be delivered to AEG no later than September 30, 2016.

## HAWAII CONVENTION CENTER

### Notes to Special-Purpose Financial Statements

December 31, 2014

The management fee for the year ended December 31, 2014 amounted to \$240,000 plus an additional \$240,000 bonus for exceeding certain performance measures.

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

#### (4) License and Food and Beverage Agreements

At December 31, 2014, 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. At December 31, 2014, the Center estimates approximately \$2,222,768 in future revenues, of which \$378,043 was collected in advance and recorded as advance deposits on the special-purpose balance sheet.

#### (5) 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, 2014 through December 31, 2018 with a termination option which may be exercised by the Authority in its sole discretion effective December 31, 2016. Notice of exercise of such option shall be delivered to the Center no later than September 30, 2016. During the year ended December 31, 2014, the Center received \$12,811,458 from the Authority, of which \$3,690,886 was required to be spent on sales and marketing. During the year ended December 31, 2014, the Center's sales and marketing expenses were \$3,000,099. 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 statement of revenue, expenses, and changes in net assets for the year ended December 31, 2014.

#### (6) Capital Improvements

Disbursements for property, building, and equipment are recorded as a reduction of contributions from the Authority since such capital assets are not recorded on the Center's special-purpose balance sheet (note 2). Disbursements for property, building, and equipment were \$205,984 as of December 31, 2014.

In 2014, the Center did not receive funds 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 \$10,454,239 in unspent funds at December 31, 2014. As of December 31, 2014, the Center had remaining commitments relating to the acquisition of capital assets of \$208,302.

#### (7) 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.

## **HAWAII CONVENTION CENTER**

### Notes to Special-Purpose Financial Statements

December 31, 2014

**(8) 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 50% on up to the first 6% of the employee's contributions 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 \$56,823 during the year ended December 31, 2014.

## **SUPPLEMENTARY INFORMATION**

**HAWAII CONVENTION CENTER**

## Schedule of Changes in Net Assets

Year ended December 31, 2014

	<b>Contributions from Hawaii Tourism Authority</b>	<b>Accumulated deficit</b>	<b>Total</b>
Balance at December 31, 2013	119,982,002	(108,929,660)	11,052,342
Loss before contributions and funds remitted	—	(4,933,587)	(4,933,587)
Contributions from Hawaii Tourism Authority	12,811,458	—	12,811,458
Remittance to Hawaii Tourism Authority for completed events revenue	(7,146,335)	—	(7,146,335)
Balance at December 31, 2014	<u>\$ 125,647,125</u>	<u>(113,863,247)</u>	<u>11,783,878</u>

See accompanying independent auditors' report.

## HAWAII CONVENTION CENTER

## Schedule of Revenue, Expenses, and Changes in Net Assets

Year ended December 31, 2014

	<u>Convention center operations</u>	<u>Sales and marketing</u>	<u>Total</u>
Operating revenue, net:			
Food and beverage	\$ 8,877,039	—	8,877,039
Rental income	2,025,573	—	2,025,573
Events	1,903,177	—	1,903,177
Other	69,139	—	69,139
Total operating revenue	<u>12,874,928</u>	<u>—</u>	<u>12,874,928</u>
Cost of goods sold:			
Food and beverage	1,492,208	—	1,492,208
Other direct food and beverage costs	2,158,394	—	2,158,394
Total cost of goods sold	<u>3,650,602</u>	<u>—</u>	<u>3,650,602</u>
Gross profit	<u>9,224,326</u>	<u>—</u>	<u>9,224,326</u>
Other operating expenses:			
Salaries and wages	3,834,131	1,230,681	5,064,812
Utilities	2,752,731	13,957	2,766,688
Payroll taxes and benefits	1,006,905	239,256	1,246,161
Contract labor	1,158,151	25,305	1,183,456
Building operations	760,967	28	760,995
Repairs and maintenance	625,982	20,635	646,617
Management fee	480,000	—	480,000
Marketing Flexibility Fund	—	458,649	458,649
Promotion	17,359	349,583	366,942
Meetings and conventions	18,655	293,153	311,808
Advertising	—	182,284	182,284
Insurance	105,968	—	105,968
Professional fees	53,927	3,222	57,149
FFE expense	54,980	397	55,377
Travel and entertainment	30,772	10,378	41,150
Employee training	35,133	805	35,938
Printing and stationery	1,709	33,870	35,579
Dues and subscriptions	9,811	22,938	32,749
Office supplies	16,923	2,228	19,151
Computer	12,929	2,826	15,755
Postage	3,611	3,265	6,876
General excise tax	2,737	2,237	4,974
Rent	—	4,539	4,539
Community relations	—	3,000	3,000
Miscellaneous	184,134	96,863	280,997
Total other operating expenses	<u>11,167,515</u>	<u>3,000,099</u>	<u>14,167,614</u>
Operating loss	<u>(1,943,189)</u>	<u>(3,000,099)</u>	<u>(4,943,288)</u>
Nonoperating revenue:			
Interest and dividend income	9,516	185	9,701
Total nonoperating revenue, net	<u>9,516</u>	<u>185</u>	<u>9,701</u>
Loss before contributions and remittance	<u>(1,933,673)</u>	<u>(2,999,914)</u>	<u>(4,933,587)</u>
Contributions from Hawaii Tourism Authority	9,120,572	3,690,886	12,811,458
Remittance to Hawaii Tourism Authority for completed events revenue	<u>(7,146,335)</u>	<u>—</u>	<u>(7,146,335)</u>
Change in net assets	<u>\$ 40,564</u>	<u>690,972</u>	<u>731,536</u>

See accompanying independent auditors' report.