



HAWAII CONVENTION CENTER

Special-Purpose Financial Statements
and Supplementary Information

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

Submitted by

**THE AUDITOR
STATE OF HAWAII**

HAWAII CONVENTION CENTER

Table of Contents

	Page
Independent Auditors' Report	1
Special-Purpose Financial Statements:	
Special-Purpose Balance Sheets	3
Special-Purpose Statements of Revenue, Expenses, and Changes in Net Assets	4
Special-Purpose Statements of Cash Flows	5
Notes to Special-Purpose Financial Statements	6
Supplementary Information	
Schedule 1 – Schedule of Changes in Net Assets	10
Schedule 2 – Schedule of Revenue, Expenses, and Changes in Net Assets	11



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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 sheets as of December 31, 2015 and 2014, and the related special-purpose statements of revenue, expenses, and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with 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 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 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years 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 audits were 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
September 23, 2016

HAWAII CONVENTION CENTER

Special-Purpose Balance Sheets

December 31, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 3,134,568	4,324,944
Accounts receivable, net of allowance for doubtful accounts	1,032,913	530,134
Prepaid expenses	204,980	53,450
Deposits and other assets	8,356	6,500
Total current assets	4,380,817	4,915,028
Restricted cash	11,631,873	10,454,239
Total assets	\$ 16,012,690	15,369,267
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,355,540	1,296,112
Due to Hawaii Tourism Authority	248,741	1,415,588
Accrued compensation	631,630	493,743
Advance deposits	401,110	378,043
Other liabilities	1,450	1,903
Total current liabilities	2,638,471	3,585,389
Commitments and contingencies		
Unrestricted net assets	1,742,346	1,329,639
Restricted net assets	11,631,873	10,454,239
Total net assets	13,374,219	11,783,878
Total liabilities and net assets	\$ 16,012,690	15,369,267

See accompanying notes to special-purpose financial statements.

HAWAII CONVENTION CENTER

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

Years ended December 31, 2015 and 2014

	2015	2014
Operating revenue, net:		
Food and beverage	\$ 9,676,745	8,877,039
Rental income	2,234,242	2,025,573
Events	2,258,801	1,903,177
Other	67,103	69,139
Total operating revenue	14,236,891	12,874,928
Operating expenses:		
Cost of goods sold:		
Food and beverage	1,311,262	1,492,208
Other direct food and beverage costs	2,385,149	2,158,394
Total cost of goods sold	3,696,411	3,650,602
Other operating expenses:		
Salaries and wages	5,318,710	5,064,812
Utilities	2,335,954	2,766,688
Contract labor	1,293,677	1,183,456
Payroll taxes and benefits	1,270,122	1,246,161
Building operations	785,603	760,995
Repairs and maintenance	691,727	646,617
Management fee	428,400	480,000
Promotion	412,920	366,942
Meetings and conventions	325,198	311,808
Marketing Flexibility Fund	204,022	458,649
Insurance	178,734	105,968
Advertising	173,028	182,284
FFE expense	47,081	55,377
Professional fees	41,627	57,149
Dues and subscriptions	35,412	32,749
Travel and entertainment	32,908	41,150
Employee training	30,551	35,938
Printing and stationery	30,208	35,579
Computer	25,721	15,755
General excise tax	24,234	4,974
Office supplies	21,205	19,151
Postage	6,699	6,876
Rent	2,204	4,539
Community relations	—	3,000
Miscellaneous	138,498	280,997
Total other operating expenses	13,854,443	14,167,614
Total operating expenses	17,550,854	17,818,216
Operating loss	(3,313,963)	(4,943,288)
Nonoperating revenue:		
Interest and dividend income	10,470	9,701
Total nonoperating revenue, net	10,470	9,701
Loss before CIP funded expenses, contributions and remittance	(3,303,493)	(4,933,587)
Major repairs and maintenance expenses	(444,720)	—
Contributions from Hawaii Tourism Authority	13,800,919	12,811,458
Remittance to Hawaii Tourism Authority for completed events revenue	(8,462,365)	(7,146,335)
Change in net assets	1,590,341	731,536
Net assets at beginning of year	11,783,878	11,052,342
Net assets at end of year	\$ 13,374,219	11,783,878

See accompanying notes to special-purpose financial statements.

HAWAII CONVENTION CENTER
Special-Purpose Statements of Cash Flows
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$ 13,757,179	12,573,322
Cash payments to suppliers of goods and services	(11,056,433)	(10,893,438)
Cash payments to employees	(6,450,945)	(5,902,945)
Net cash used in operating activities	<u>(3,750,199)</u>	<u>(4,223,061)</u>
Cash flows from noncapital financing activities:		
Major repairs and maintenance expenses	(444,720)	—
Contributions received from Hawaii Tourism Authority	8,741,803	13,353,904
Funds remitted to Hawaii Tourism Authority	(5,747,730)	(5,730,747)
Net cash provided by noncapital financing activities	<u>2,549,353</u>	<u>7,623,157</u>
Cash flows from investing activities:		
Interest and dividend income	10,470	9,701
Net cash provided by investing activities	<u>10,470</u>	<u>9,701</u>
Net decrease in cash and cash equivalents	(1,190,376)	3,409,797
Cash and cash equivalents at beginning of year	<u>4,324,944</u>	<u>915,147</u>
Cash and cash equivalents at end of year	<u>\$ 3,134,568</u>	<u>4,324,944</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (3,313,963)	(4,943,288)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Decrease (increase) in operating assets:		
Accounts receivable	(502,779)	(300,171)
Prepaid expenses	(151,530)	29,949
Deposits and other assets	(1,856)	40,886
Inventories	—	141,591
Increase (decrease) in operating liabilities:		
Accounts payable	59,428	401,972
Accrued compensation	137,887	408,028
Advance deposits	23,067	(1,435)
Other liabilities	(453)	(593)
Total adjustments	<u>(436,236)</u>	<u>720,227</u>
Net cash used in operating activities	<u>\$ (3,750,199)</u>	<u>(4,223,061)</u>

See accompanying notes to special-purpose financial statements.

HAWAII CONVENTION CENTER

Notes to Special-Purpose Financial Statements

December 31, 2015 and 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 sheets 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 sheets 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, 2015 and 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 \$2,798,841 and \$2,738,892 for the years ended December 31, 2015 and 2014, respectively.

(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, 2015 and 2014

The management fee for the year ended December 31, 2015 amounted to \$244,800 plus an additional \$183,600 bonus for exceeding certain performance measures.

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, 2015 and 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, 2015 and 2014, the Center estimates approximately \$1,726,886 and \$2,222,768, respectively, in future revenues, of which \$401,110 and \$378,043, respectively, was collected in advance and recorded as advance deposits on the special-purpose balance sheets.

(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 years ended December 31, 2015 and 2014, the Center received \$13,800,919 and \$12,811,458, respectively, from the Authority, of which \$3,148,281 and \$3,690,886, respectively, was required to be spent on sales and marketing. During the years ended December 31, 2015 and 2014, the Center's sales and marketing expenses were \$3,061,814 and \$3,000,099, 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 revenue, expenses, and changes in net assets for the years ended December 31, 2015 and 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 sheets (note 2). Disbursements for property, building, and equipment were \$283,646 and \$205,984 as of December 31, 2015 and 2014, respectively.

In 2015 and 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 \$11,631,873 in unspent funds at December 31, 2015. As of December 31, 2015, the Center had remaining commitments relating to the acquisition of capital assets of \$312,737.

HAWAII CONVENTION CENTER

Notes to Special-Purpose Financial Statements

December 31, 2015 and 2014

(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.

(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 \$84,902 and \$56,823 during the years ended December 31, 2015 and 2014, respectively.

SUPPLEMENTARY INFORMATION

HAWAII CONVENTION CENTER

Schedule of Changes in Net Assets

Years ended December 31, 2015 and 2014

	Contributions from Hawaii Tourism Authority	Accumulated deficit	Total
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	125,647,125	(113,863,247)	11,783,878
Loss before contributions and funds remitted	—	(3,303,493)	(3,303,493)
Contributions from Hawaii Tourism Authority	13,800,919	—	13,800,919
Remittance to Hawaii Tourism Authority for completed events revenue	(8,462,365)	—	(8,462,365)
Balance at December 31, 2015	\$ <u>130,985,679</u>	<u>(117,166,740)</u>	<u>13,818,939</u>

See accompanying independent auditors' report.

HAWAII CONVENTION CENTER

Schedule of Revenue, Expenses, and Changes in Net Assets

Year ended December 31, 2015

	Convention center operations	Sales and marketing	Total
Operating revenue, net:			
Food and beverage	\$ 9,676,745	—	9,676,745
Rental income	2,234,242	—	2,234,242
Events	2,258,801	—	2,258,801
Other	67,103	—	67,103
Total operating revenue	<u>14,236,891</u>	<u>—</u>	<u>14,236,891</u>
Cost of goods sold:			
Food and beverage	1,311,262	—	1,311,262
Other direct food and beverage costs	2,385,149	—	2,385,149
Total cost of goods sold	<u>3,696,411</u>	<u>—</u>	<u>3,696,411</u>
Gross profit	<u>10,540,480</u>	<u>—</u>	<u>10,540,480</u>
Other operating expenses:			
Salaries and wages	3,837,286	1,481,424	5,318,710
Utilities	2,320,659	15,295	2,335,954
Contract labor	1,267,487	26,190	1,293,677
Payroll taxes and benefits	986,007	284,115	1,270,122
Building operations	785,059	544	785,603
Repairs and maintenance	658,847	32,880	691,727
Management fee	428,400	—	428,400
Promotion	37,998	374,922	412,920
Meetings and conventions	12,972	312,226	325,198
Marketing Flexibility Fund	—	204,022	204,022
Insurance	178,734	—	178,734
Advertising	—	173,028	173,028
FFE expense	44,528	2,553	47,081
Professional fees	40,889	738	41,627
Dues and subscriptions	14,516	20,896	35,412
Travel and entertainment	19,204	13,704	32,908
Employee training	29,924	627	30,551
Printing and stationery	763	29,445	30,208
Computer	24,421	1,300	25,721
General excise tax	21,915	2,319	24,234
Office supplies	18,514	2,691	21,205
Postage	4,072	2,627	6,699
Rent	—	2,204	2,204
Miscellaneous	60,434	78,064	138,498
Total other operating expenses	<u>10,792,629</u>	<u>3,061,814</u>	<u>13,854,443</u>
Operating loss	(252,149)	(3,061,814)	(3,313,963)
Nonoperating revenue:			
Interest and dividend income	10,388	82	10,470
Total nonoperating revenue, net	<u>10,388</u>	<u>82</u>	<u>10,470</u>
Loss before contributions and remittance	(241,761)	(3,061,732)	(3,303,493)
Major repairs and maintenance expenses	(444,720)	—	(444,720)
Contributions from Hawaii Tourism Authority	10,652,638	3,148,281	13,800,919
Remittance to Hawaii Tourism Authority for completed events revenue	(8,462,365)	—	(8,462,365)
Change in net assets	<u>\$ 1,503,792</u>	<u>86,549</u>	<u>1,590,341</u>

See accompanying independent auditors' report.

HAWAII CONVENTION CENTER

Schedule of Revenue, Expenses, and Changes in Net Assets

Year ended December 31, 2014

	Convention center operations	Sales and marketing	Total
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.