



September 24, 2020

**VIA EMAIL**

The Honorable Ronald D. Kouchi  
Senate President  
415 South Beretania Street  
Hawai'i State Capitol, Room 409  
Honolulu, Hawai'i 96813

**VIA EMAIL**

The Honorable Scott K. Saiki  
Speaker, House of Representatives  
415 South Beretania Street  
Hawai'i State Capitol, Room 431  
Honolulu, Hawai'i 96813

**RE: Financial Audit of the Hawai'i Convention Center**

Dear President Kouchi and Speaker Saiki:

The financial audit of the Hawai'i Convention Center for the year ended December 31, 2019, was issued on September 1, 2020. The Office of the Auditor retained Accuity LLP to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

You may view the financial audit report and Auditor's Summary on our website at:

[http://files.hawaii.gov/auditor/Reports/2019\\_Audit/ConventionCenter2019.pdf](http://files.hawaii.gov/auditor/Reports/2019_Audit/ConventionCenter2019.pdf); and

[http://files.hawaii.gov/auditor/Reports/2019\\_Audit/HCC\\_Summary\\_2019.pdf](http://files.hawaii.gov/auditor/Reports/2019_Audit/HCC_Summary_2019.pdf).

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo  
State Auditor

LHK:LYK:emo

Attachments

ec/attach: Senators  
Representatives  
Carol Taniguchi, Senate Chief Clerk  
Brian Takeshita, House Chief Clerk

# **Hawaii Convention Center**

**Special-Purpose Financial Statements  
and Supplementary Information**

**December 31, 2019 and 2018**

**Hawaii Convention Center**  
**Index**  
**December 31, 2019 and 2018**

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|  | <b>Page(s)</b> |
|--|----------------|
| <b>Report of Independent Auditors</b>  |                |
| <b>Special-Purpose Financial Statements</b>                                  |                |
| Statements of Assets, Liabilities, and Net Assets.....                       | 3              |
| Statements of Revenue, Expenses, and Changes in Net Assets.....              | 4–5            |
| Statements of Cash Flows .....   | 6              |
| Notes to Financial Statements .....  | 7–10           |
| <b>Supplementary Information</b>   |                |
| Schedule 1 – Schedules of Changes in Net Assets .....                        | 11             |
| Schedule 2 – Schedules of Revenue, Expenses, and Changes in Net Assets ..... | 12–15          |

## Report of Independent Auditors

The Auditor  
State of Hawaii

The Board of Directors  
Hawaii Tourism Authority

### Report on the Special-Purpose Financial Statements

We have audited the accompanying special-purpose financial statements of Hawaii Convention Center (the "Center"), which comprise the special-purpose statements of assets, liabilities, and net assets as of December 31, 2019, and the related special-purpose statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the special-purpose financial statements.

### Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the provisions of the contract agreement between the Hawaii Tourism Authority (the "Authority") and AEG Management HCC, LLC ("AEG") dated August 8, 2013. Management is also responsible for 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 auditors consider 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 on the Special-Purpose Financial Statements**

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Center as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with the financial reporting provisions of the contract agreement between the Authority and AEG.

### **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 by the Center on the basis of the provisions of the contract agreement between the Authority and AEG, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract agreement referenced to above. Our opinion is not modified with respect to this matter.

### **Prior Period Financial Statements**

The special-purpose financial statements of the Center as of December 31, 2018 were audited by other auditors whose report dated June 14, 2019 expressed an unmodified opinion on those statements.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the special-purpose financial statements as a whole. The information in the accompanying supplementary schedule of changes in net assets and schedule of revenue, expenses, and changes in net assets for the year ended December 31, 2019 is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. Such 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. The 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 information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole. The 2018 supplementary schedule of changes in net assets and schedule of revenue, expenses, and changes in net assets was subjected to the auditing procedures applied in the 2018 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2018 special-purpose financial statements as a whole.

### **Restricted Use**

Our report is intended solely for the information and use of the Auditor, State of Hawaii, the Board of Directors and management of the Authority, and AEG, and is not intended to be and should not be used by anyone other than these specified parties.

*Accuity LLP*

Honolulu, Hawaii  
September 1, 2020

**Hawaii Convention Center**  
**Special-Purpose Statements of Assets, Liabilities, and Net Assets**  
**December 31, 2019 and 2018**

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|   | 2019                 | 2018                 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| Current assets  |                      |                      |
| Cash and cash equivalents   | \$ 4,265,238         | \$ 2,849,301         |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$36,221 in 2019 and \$57,258 in 2018 | 1,226,749            | 534,517              |
| Due from the Authority  | 8,652,946            | 9,098,739            |
| Prepaid expenses  | 365,855              | 170,917              |
| Deposits and other assets   | <u>221,917</u>       | <u>89,081</u>        |
| Total current assets  | 14,732,705           | 12,742,555           |
| Restricted cash   | <u>15,280,135</u>    | <u>10,347,343</u>    |
| Total assets  | <u>\$ 30,012,840</u> | <u>\$ 23,089,898</u> |
| <b>Liabilities and Net Assets</b>   |                      |                      |
| Current liabilities   |                      |                      |
| Accounts payable  | \$ 1,920,356         | \$ 1,384,794         |
| Due to the Authority  | 1,120,804            | 867,667              |
| Accrued compensation  | 748,926              | 765,222              |
| Advance deposits  | 729,210              | 625,254              |
| Other liabilities   | <u>6,861</u>         | <u>10,066</u>        |
| Total current liabilities   | <u>4,526,157</u>     | <u>3,653,003</u>     |
| Net assets  |                      |                      |
| Without restrictions  | 1,648,529            | 589,552              |
| With restrictions   | <u>23,838,154</u>    | <u>18,847,343</u>    |
| Total net assets  | <u>25,486,683</u>    | <u>19,436,895</u>    |
| Total liabilities and net assets  | <u>\$ 30,012,840</u> | <u>\$ 23,089,898</u> |

The accompanying notes are an integral part of these special-purpose financial statements.

**Hawaii Convention Center**  
**Special-Purpose Statements of Revenue, Expenses, and Changes in Net Assets**  
**Years Ended December 31, 2019 and 2018**

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|   | <b>2019</b>        | <b>2018</b>        |
|---|--------------------|--------------------|
| <b>Operating revenue without restrictions</b> |                    |                    |
| Food and beverage                             | \$ 11,058,969      | \$ 8,817,347       |
| Events  | 2,880,143          | 2,323,652          |
| Rental income                                 | 2,692,054          | 2,689,423          |
| Other   | 95,081             | 100,867            |
|   | <u>16,726,247</u>  | <u>13,931,289</u>  |
| Total operating revenue                       |                    |                    |
| <b>Operating expenses</b>                     |                    |                    |
| Salaries and wages                            | 6,357,473          | 5,958,155          |
| Other direct food and beverage costs          | 3,156,846          | 2,655,563          |
| Utilities                                     | 2,587,057          | 2,490,016          |
| Contract labor                                | 1,930,970          | 1,614,940          |
| Food and beverage                             | 1,748,345          | 1,356,014          |
| Payroll taxes and benefits                    | 1,647,454          | 1,461,349          |
| Marketing Flexibility Fund                    | 1,166,934          | 2,015,277          |
| Promotion                                     | 881,294            | 541,848            |
| Repairs and maintenance                       | 769,345            | 748,283            |
| Building operations                           | 756,432            | 737,623            |
| Meetings and conventions                      | 590,521            | 1,068,255          |
| Advertising                                   | 418,447            | 368,133            |
| Management fee                                | 397,200            | 453,600            |
| Insurance                                     | 84,796             | 173,826            |
| Community relations                           | 63,581             | 65,992             |
| Professional fees                             | 52,260             | 35,523             |
| Employee training                             | 42,473             | 42,663             |
| Computer                                      | 32,439             | 52,142             |
| Sales and use tax                             | 30,777             | 17,316             |
| Dues and subscriptions                        | 23,824             | 48,248             |
| Travel and entertainment                      | 22,227             | 52,748             |
| Printing and stationery                       | 21,985             | 37,198             |
| Office supplies                               | 19,725             | 25,748             |
| Furniture, fixtures and equipment             | 18,120             | 112,426            |
| Miscellaneous                                 | 143,974            | 151,568            |
|   | <u>22,964,499</u>  | <u>22,284,454</u>  |
| Total operating expenses                      |                    |                    |
| Operating loss                                | <u>(6,238,252)</u> | <u>(8,353,165)</u> |

The accompanying notes are an integral part of these special-purpose financial statements.

**Hawaii Convention Center**  
**Special-Purpose Statements of Revenue, Expenses, and Changes in Net Assets**  
**Years Ended December 31, 2019 and 2018**

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|  | <b>2019</b>          | <b>2018</b>          |
|--|----------------------|----------------------|
| Subtotal carried forward                                 | <u>(6,238,252)</u>   | <u>(8,353,165)</u>   |
| <b>Nonoperating revenue without restrictions</b>         |                      |                      |
| Contributions from the Authority                         | 16,536,883           | 16,299,232           |
| Interest and dividend income                             | <u>1,303</u>         | <u>211</u>           |
| Total nonoperating revenue without restrictions          | 16,538,186           | 16,299,443           |
| <b>Nonoperating expenses</b>                             |                      |                      |
| Remittance to the Authority for completed events revenue | (9,238,191)          | (8,880,529)          |
| Capital improvement funded expenses                      | <u>(567,009)</u>     | <u>(484,289)</u>     |
| Total nonoperating expenses                              | (9,805,200)          | (9,364,818)          |
| Net assets released from restrictions                    | <u>567,009</u>       | <u>484,289</u>       |
| Increase (decrease) in net assets without restrictions   | 1,061,743            | (934,251)            |
| <b>Nonoperating revenue with restrictions</b>            |                      |                      |
| Contributions from the Authority                         | 5,414,443            | 4,300,000            |
| Interest and dividend income                             | <u>140,611</u>       | <u>58,798</u>        |
| Total nonoperating revenue with restrictions             | 5,555,054            | 4,358,798            |
| Net assets released from restrictions                    | <u>(567,009)</u>     | <u>(484,289)</u>     |
| Increase in net assets with restrictions                 | <u>4,988,045</u>     | <u>3,874,509</u>     |
| Increase in net assets                                   | 6,049,788            | 2,940,258            |
| <b>Net assets</b>  |                      |                      |
| Beginning of year  | <u>19,436,895</u>    | <u>16,496,637</u>    |
| End of year  | <u>\$ 25,486,683</u> | <u>\$ 19,436,895</u> |

The accompanying notes are an integral part of these special-purpose financial statements.



**Hawaii Convention Center  
Special-Purpose Statements of Cash Flows  
Years Ended December 31, 2019 and 2018**

|  | <b>2019</b>           | <b>2018</b>           |
|--|-----------------------|-----------------------|
| <b>Cash flows from operating activities</b>  |                       |                       |
| Cash received from customers   | \$ 16,137,971         | \$ 14,727,390         |
| Cash payments to suppliers of goods and services                                     | (14,754,989)          | (14,862,779)          |
| Cash payments to employees   | <u>(8,021,223)</u>    | <u>(7,311,154)</u>    |
| Net cash used in operating activities  | <u>(6,638,241)</u>    | <u>(7,446,543)</u>    |
| <b>Cash flows from investing activities</b>  |                       |                       |
| Payments for capital improvements  | (567,009)             | (484,289)             |
| Interest and dividend income   | <u>141,914</u>        | <u>59,009</u>         |
| Net cash used in investing activities  | <u>(425,095)</u>      | <u>(425,280)</u>      |
| <b>Cash flows from financing activities</b>  |                       |                       |
| Contributions received from the Authority  | 22,397,119            | 16,043,432            |
| Funds remitted to the Authority  | <u>(8,985,054)</u>    | <u>(8,413,631)</u>    |
| Net cash provided by financing activities  | <u>13,412,065</u>     | <u>7,629,801</u>      |
| Net increase (decrease) in cash,<br>cash equivalents, and restricted cash            | 6,348,729             | (242,022)             |
| <b>Cash, cash equivalents, and restricted cash</b>                                   |                       |                       |
| Beginning of year  | <u>13,196,644</u>     | <u>13,438,666</u>     |
| End of year  | <u>\$ 19,545,373</u>  | <u>\$ 13,196,644</u>  |
| Cash and cash equivalents  | \$ 4,265,238          | \$ 2,849,301          |
| Restricted cash  | <u>15,280,135</u>     | <u>10,347,343</u>     |
| Total cash, cash equivalents, and restricted cash                                    | <u>\$ 19,545,373</u>  | <u>\$ 13,196,644</u>  |
| <b>Reconciliation of operating loss to<br/>net cash used in operating activities</b> |                       |                       |
| Operating loss   | \$ (6,238,252)        | \$ (8,353,165)        |
| Adjustments to reconcile operating loss to<br>net cash used in operating activities  |                       |                       |
| Decrease (increase) in assets  |                       |                       |
| Accounts receivable  | (692,232)             | 761,230               |
| Prepaid expenses   | (194,938)             | 24,438                |
| Deposits and other assets  | (132,836)             | (54,039)              |
| Increase (decrease) in liabilities   |                       |                       |
| Accounts payable   | 535,562               | 28,648                |
| Accrued compensation   | (16,296)              | 108,348               |
| Advance deposits   | 103,956               | 34,871                |
| Other liabilities  | <u>(3,205)</u>        | <u>3,126</u>          |
| Total adjustments  | <u>(399,989)</u>      | <u>906,622</u>        |
| Net cash used in operating activities  | <u>\$ (6,638,241)</u> | <u>\$ (7,446,543)</u> |

The accompanying notes are an integral part of these special-purpose financial statements.

# Hawaii Convention Center

## Notes to Special-Purpose Financial Statements

### December 31, 2019 and 2018

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#### 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 (the "Authority") became 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

##### **Basis of Presentation**

The special-purpose financial statements have been prepared pursuant to the provisions of the contract agreement between the Authority and AEG Management HCC, LLC ("AEG"), a private contractor, and are intended to present the assets, liabilities, and net assets; 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 as incurred.

These special-purpose financial statements differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America, in that the property, building, furniture and equipment used in the Center's operations, and related depreciation 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.

##### **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 provided by or at the Center. Operating expenses include costs of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

##### **Classification of Current and Noncurrent Assets and Liabilities**

The Center considers assets 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 date of the special-purpose statement of assets, liabilities, and net assets to be current. Liabilities that reasonably can be expected, as part of normal Center business operations, to be paid within 12 months of the special-purpose statement of assets, liabilities, and net assets date are current. All other assets and liabilities are considered to be noncurrent.

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

Cash and cash equivalents include cash on deposit with banks with original maturities of three months or less and balances held in a money market fund.

# Hawaii Convention Center

## Notes to Special-Purpose Financial Statements

### December 31, 2019 and 2018

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#### **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.

#### **Revenue Recognition**

Operating revenue includes charges for services, which are recognized when earned.

#### **Allowance for Doubtful Accounts**

The Center's accounts receivable is due from companies in various industries. Credit is extended based on an evaluation of the customer's financial condition and collateral is not required. Accounts receivable are due within 30 days and are stated at amounts due from customers. Management determines the allowance based on a review of each specific customer's 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.

#### **Discounts**

Operating revenue is net of sales discounts amounting to approximately \$3,524,000 and \$2,834,000 for the years ended December 31, 2019 and 2018, respectively.

#### **Advertising Expenses**

Advertising costs are charged to expense as incurred. The total amounts charged to advertising expense totaled approximately \$307,000 for each of the years ended December 31, 2019 and 2018.

#### **Use of Estimates**

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

#### **Reclassifications**

Certain amounts in the 2018 special-purpose financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications had no impact on the 2018 operating loss as previously reported.

### **3. Contract Agreement**

The Center is managed and operated by AEG under a contract 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, 2020 and provides AEG to receive management fees. For the year ended December 31, 2019, the management fee earned by AEG amounted to \$264,000 plus an estimated additional bonus of approximately \$133,000 for exceeding certain performance measures. For the year ended December 31, 2018, the management fee amounted to approximately \$259,000 plus an additional bonus of approximately \$194,000 for exceeding certain performance measures. Effective January 1, 2020, AEG is responsible for the Center's sales and marketing efforts within the state of Hawaii and a third party is responsible for sales and marketing efforts outside of Hawaii.

# Hawaii Convention Center

## Notes to Special-Purpose Financial Statements

### December 31, 2019 and 2018

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#### 4. License and Food and Beverage Agreements

At December 31, 2019 and 2018, 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, 2019 and 2018, the Center estimates approximately \$891,000 and \$1,539,000, respectively, in future revenues, of which approximately \$729,000 and \$625,000, respectively, was collected in advance and are included in advance deposits in the accompanying special-purpose statements of assets, liabilities, and net assets.

#### 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. The Center entered into an agreement with the Authority whereby the Authority agreed to provide funding for the sales and marketing of the Center. The term of the current agreement is from January 1, 2014 through December 31, 2020. During the years ended December 31, 2019 and 2018, the Center received approximately \$21,951,000 and \$20,599,000, respectively, from the Authority, of which approximately \$5,235,000 and \$5,930,000, respectively, was required to be spent on sales and marketing. During the years ended December 31, 2019 and 2018, the Center's sales and marketing expenses were \$5,315,000 and \$6,218,000, respectively, and includes expenses from the Marketing Flexibility Fund, which is used to attract clients to use the Center for their events. These sales and marketing costs are included as operating expenses in the accompanying special-purpose statements of revenue, expenses, and changes in net assets for the years ended December 31, 2019 and 2018. 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.

#### 6. Capital Improvements

Disbursements for property, building and equipment are recorded as a reduction of contributions from the Authority. Disbursements for property, building and equipment were approximately \$567,000 and \$484,000 for the years ended December 31, 2019 and 2018, respectively.

During the years ended December 31, 2019 and 2018, the Center received approximately \$5,414,000 and \$4,300,000, respectively, from the Authority to be used for emergency capital improvements, repair or maintenance purchases, and 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 approximately \$23,838,000 and \$18,847,000 in unspent funds at December 31, 2019 and 2018, respectively. During the year ended December 31, 2019, the Center used approximately \$8,558,000 in restricted cash to cover operational expenses, which is in the process of being reimbursed by the Authority, resulting in approximately \$15,280,000 in restricted cash at December 31, 2019. During the year ended December 31, 2018, the Center used \$8,500,000 in restricted cash to cover operational expenses, which is in the process of being reimbursed by the Authority, resulting in approximately \$10,347,000 in restricted cash at December 31, 2018.

# Hawaii Convention Center

## Notes to Special-Purpose Financial Statements

### December 31, 2019 and 2018

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#### 7. Pension Plan

The Center has a defined-contribution pension plan for all employees meeting service, age and employment status requirements. The Center matches 100% of an employee's contribution up to the first 3% of the employee's contribution. Contributions to the plan amounted to approximately \$98,000 and \$89,000 for the years ended December 31, 2019 and 2018, respectively.

#### 8. Contingencies

The Center may be subject to legal proceedings, claims and litigation arising in the ordinary course of business for which it may seek the advice of legal counsel. Management estimates that the cost to resolve such matters, if any, would not be material to the special-purpose financial statements. However, it is reasonably possible that such estimates may change within the near term.

#### 9. Subsequent Events

In accordance with Act 26 of the 2019 Session Laws of Hawaii, effective January 1, 2020, contracts entered into by the Authority for the marketing of all uses of the Center may be issued separately from the management, use, operation or maintenance of the Center.

The Company has reviewed all events that have occurred from January 1, 2020 through September 1, 2020, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

In March 2020, the World Health Organization declared an outbreak of the novel coronavirus ("COVID-19") to be a global pandemic. The financial impact of COVID-19 on the travel and tourism industry is anticipated to be significant. As of July 31, 2020, management has estimated approximately \$2,417,000 in cancelled events due to COVID-19.

# **Supplementary Information**

**Hawaii Convention Center  
Schedules of Changes in Net Assets  
Years Ended December 31, 2019 and 2018**

**Schedule 1**

|  | <b>Contributions<br/>from the<br/>Authority</b> | <b>Accumulated<br/>Deficit</b> | <b>Total</b>         |
|--|---|--------------------------------|----------------------|
| <b>Balance at December 31, 2017</b>  | \$ 142,279,014                                  | \$ (125,782,377)               | \$ 16,496,637        |
| Loss before capital improvement funded expenses,<br>contributions and funds remitted | -   | (8,294,156)                    | (8,294,156)          |
| Capital improvement funded expenses  | -   | (484,289)                      | (484,289)            |
| Contributions from the Authority   | 20,599,232                                      | -                              | 20,599,232           |
| Remittance to the Authority for completed events revenue                             | <u>(8,880,529)</u>                              | <u>-</u>                       | <u>(8,880,529)</u>   |
| <b>Balance at December 31, 2018</b>  | 153,997,717                                     | (134,560,822)                  | 19,436,895           |
| Loss before capital improvement funded expenses,<br>contributions and funds remitted | -   | (6,096,338)                    | (6,096,338)          |
| Capital improvement funded expenses  | -   | (567,009)                      | (567,009)            |
| Contributions from the Authority   | 21,951,326                                      | -                              | 21,951,326           |
| Remittance to the Authority for completed events revenue                             | <u>(9,238,191)</u>                              | <u>-</u>                       | <u>(9,238,191)</u>   |
| <b>Balance at December 31, 2019</b>  | <u>\$ 166,710,852</u>                           | <u>\$ (141,224,169)</u>        | <u>\$ 25,486,683</u> |

**Hawaii Convention Center**  
**Schedule of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended December 31, 2019**

**Schedule 2**

|   | <b>Convention<br/>Center<br/>Operations</b> | <b>Sales<br/>and<br/>Marketing</b> | <b>Total</b>       |
|---|---|------------------------------------|--------------------|
| <b>Operating revenue without restrictions</b> |   |                                    |                    |
| Food and beverage                             | \$ 11,058,969                               | \$ -                               | \$ 11,058,969      |
| Events  | 2,880,143                                   | -                                  | 2,880,143          |
| Rental income                                 | 2,692,054                                   | -                                  | 2,692,054          |
| Other   | 95,081                                      | -                                  | 95,081             |
| Total operating revenue                       | <u>16,726,247</u>                           | <u>-</u>                           | <u>16,726,247</u>  |
| <b>Operating expenses</b>                     |   |                                    |                    |
| Salaries and wages                            | 4,881,790                                   | 1,475,683                          | 6,357,473          |
| Other direct food and beverage costs          | 3,156,846                                   | -                                  | 3,156,846          |
| Utilities                                     | 2,580,009                                   | 7,048                              | 2,587,057          |
| Contract labor                                | 1,706,111                                   | 224,859                            | 1,930,970          |
| Food and beverage                             | 1,748,345                                   | -                                  | 1,748,345          |
| Payroll taxes and benefits                    | 1,318,136                                   | 329,318                            | 1,647,454          |
| Marketing Flexibility Fund                    | -   | 1,166,934                          | 1,166,934          |
| Promotion                                     | 74,542                                      | 806,752                            | 881,294            |
| Repairs and maintenance                       | 695,786                                     | 73,559                             | 769,345            |
| Building operations                           | 756,432                                     | -                                  | 756,432            |
| Meetings and conventions                      | 20,378                                      | 570,143                            | 590,521            |
| Advertising                                   | -   | 418,447                            | 418,447            |
| Management fee                                | 290,400                                     | 106,800                            | 397,200            |
| Insurance                                     | 84,796                                      | -                                  | 84,796             |
| Community relations                           | 13,005                                      | 50,576                             | 63,581             |
| Professional fees                             | 51,130                                      | 1,130                              | 52,260             |
| Employee training                             | 36,701                                      | 5,772                              | 42,473             |
| Computer                                      | 29,537                                      | 2,902                              | 32,439             |
| Sales and use tax                             | 14,522                                      | 16,255                             | 30,777             |
| Dues and subscriptions                        | 9,875                                       | 13,949                             | 23,824             |
| Travel and entertainment                      | 15,115                                      | 7,112                              | 22,227             |
| Printing and stationery                       | 1,334                                       | 20,651                             | 21,985             |
| Office supplies                               | 17,610                                      | 2,115                              | 19,725             |
| Furniture, fixtures and equipment             | 18,120                                      | -                                  | 18,120             |
| Miscellaneous                                 | 128,712                                     | 15,262                             | 143,974            |
| Total operating expenses                      | <u>17,649,232</u>                           | <u>5,315,267</u>                   | <u>22,964,499</u>  |
| Operating loss                                | <u>(922,985)</u>                            | <u>(5,315,267)</u>                 | <u>(6,238,252)</u> |



**Hawaii Convention Center**  
**Schedule of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended December 31, 2019**

**Schedule 2**

|  | <b>Convention<br/>Center<br/>Operations</b> | <b>Sales<br/>and<br/>Marketing</b> | <b>Total</b>        |
|--|---|------------------------------------|---------------------|
| Subtotal carried forward                                 | <u>(922,985)</u>                            | <u>(5,315,267)</u>                 | <u>(6,238,252)</u>  |
| <b>Nonoperating revenue without restrictions</b>         |   |                                    |                     |
| Contributions from the Authority                         | 11,302,151                                  | 5,234,732                          | 16,536,883          |
| Interest and dividend income                             | -   | 1,303                              | 1,303               |
| Total nonoperating revenue without restrictions          | 11,302,151                                  | 5,236,035                          | 16,538,186          |
| <b>Nonoperating expenses</b>                             |   |                                    |                     |
| Remittance to the Authority for completed events revenue | (9,238,191)                                 | -                                  | (9,238,191)         |
| Capital improvement funded expenses                      | <u>(567,009)</u>                            | -                                  | <u>(567,009)</u>    |
| Total nonoperating expenses                              | (9,805,200)                                 | -                                  | (9,805,200)         |
| Net assets released from restrictions                    | <u>567,009</u>                              | -                                  | <u>567,009</u>      |
| Increase (decrease) in net assets without restrictions   | 1,140,975                                   | (79,232)                           | 1,061,743           |
| <b>Nonoperating revenue with restrictions</b>            |   |                                    |                     |
| Contributions from the Authority                         | 5,414,443                                   | -                                  | 5,414,443           |
| Interest and dividend income                             | <u>140,611</u>                              | -                                  | <u>140,611</u>      |
| Total nonoperating revenue with restrictions             | 5,555,054                                   | -                                  | 5,555,054           |
| Net assets released from restrictions                    | <u>(567,009)</u>                            | -                                  | <u>(567,009)</u>    |
| Increase in net assets with restrictions                 | <u>4,988,045</u>                            | -                                  | <u>4,988,045</u>    |
| Change in net assets                                     | <u>\$ 6,129,020</u>                         | <u>\$ (79,232)</u>                 | <u>\$ 6,049,788</u> |

**Hawaii Convention Center**  
**Schedule of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended December 31, 2018**

**Schedule 2**

|   | <b>Convention<br/>Center<br/>Operations</b> | <b>Sales<br/>and<br/>Marketing</b> | <b>Total</b> |
|---|---|------------------------------------|--------------|
| <b>Operating revenue without restrictions</b> |   |                                    |              |
| Food and beverage                             | \$ 8,817,347                                | \$ -                               | \$ 8,817,347 |
| Rental income                                 | 2,689,423                                   | -                                  | 2,689,423    |
| Events  | 2,323,652                                   | -                                  | 2,323,652    |
| Other   | 100,867                                     | -                                  | 100,867      |
| Total operating revenue                       | 13,931,289                                  | -                                  | 13,931,289   |
| <b>Operating expenses</b>                     |   |                                    |              |
| Salaries and wages                            | 4,526,057                                   | 1,432,098                          | 5,958,155    |
| Other direct food and beverage costs          | 2,655,563                                   | -                                  | 2,655,563    |
| Utilities                                     | 2,483,671                                   | 6,345                              | 2,490,016    |
| Marketing Flexibility Fund                    | -   | 2,015,277                          | 2,015,277    |
| Contract labor                                | 1,515,586                                   | 99,354                             | 1,614,940    |
| Payroll taxes and benefits                    | 1,190,587                                   | 270,762                            | 1,461,349    |
| Food and beverage                             | 1,356,014                                   | -                                  | 1,356,014    |
| Meetings and conventions                      | 6,816                                       | 1,061,439                          | 1,068,255    |
| Repairs and maintenance                       | 651,788                                     | 96,495                             | 748,283      |
| Building operations                           | 736,183                                     | 1,440                              | 737,623      |
| Promotion                                     | 38,831                                      | 503,017                            | 541,848      |
| Management fee                                | 252,720                                     | 200,880                            | 453,600      |
| Advertising                                   | -   | 368,133                            | 368,133      |
| Insurance                                     | 173,826                                     | -                                  | 173,826      |
| Furniture, fixtures and equipment             | 107,190                                     | 5,236                              | 112,426      |
| Community relations                           | 28,296                                      | 37,696                             | 65,992       |
| Travel and entertainment                      | 40,034                                      | 12,714                             | 52,748       |
| Computer                                      | 47,577                                      | 4,565                              | 52,142       |
| Dues and subscriptions                        | 8,561                                       | 39,687                             | 48,248       |
| Employee training                             | 37,060                                      | 5,603                              | 42,663       |
| Printing and stationery                       | 604   | 36,594                             | 37,198       |
| Professional fees                             | 33,112                                      | 2,411                              | 35,523       |
| Office supplies                               | 21,962                                      | 3,786                              | 25,748       |
| Sales and use tax                             | 6,585                                       | 10,731                             | 17,316       |
| Miscellaneous                                 | 147,357                                     | 4,211                              | 151,568      |
| Total operating expenses                      | 16,065,980                                  | 6,218,474                          | 22,284,454   |
| Operating loss                                | (2,134,691)                                 | (6,218,474)                        | (8,353,165)  |

**Hawaii Convention Center**  
**Schedule of Revenue, Expenses, and Changes in Net Assets**  
**Year Ended December 31, 2018**

**Schedule 2**

|  | <b>Convention<br/>Center<br/>Operations</b> | <b>Sales<br/>and<br/>Marketing</b> | <b>Total</b>        |
|--|---|------------------------------------|---------------------|
| Subtotal carried forward                                 | <u>(2,134,691)</u>                          | <u>(6,218,474)</u>                 | <u>(8,353,165)</u>  |
| <b>Nonoperating revenue without restrictions</b>         |   |                                    |                     |
| Contributions from the Authority                         | 10,369,256                                  | 5,929,976                          | 16,299,232          |
| Interest and dividend income                             | -   | 211                                | 211                 |
| Total nonoperating revenue without restrictions          | <u>10,369,256</u>                           | <u>5,930,187</u>                   | <u>16,299,443</u>   |
| <b>Nonoperating expenses</b>                             |   |                                    |                     |
| Remittance to the Authority for completed events revenue | (8,880,529)                                 | -                                  | (8,880,529)         |
| Capital improvement funded expenses                      | <u>(484,289)</u>                            | -                                  | <u>(484,289)</u>    |
| Total nonoperating expenses                              | <u>(9,364,818)</u>                          | -                                  | <u>(9,364,818)</u>  |
| Net assets released from restrictions                    | <u>484,289</u>                              | -                                  | <u>484,289</u>      |
| Decrease in net assets without restrictions              | <u>(645,964)</u>                            | <u>(288,287)</u>                   | <u>(934,251)</u>    |
| <b>Nonoperating revenue with restrictions</b>            |   |                                    |                     |
| Contributions from the Authority                         | 4,300,000                                   | -                                  | 4,300,000           |
| Interest and dividend income                             | <u>58,798</u>                               | -                                  | <u>58,798</u>       |
| Total nonoperating revenue with restrictions             | <u>4,358,798</u>                            | -                                  | <u>4,358,798</u>    |
| Net assets released from restrictions                    | <u>(484,289)</u>                            | -                                  | <u>(484,289)</u>    |
| Increase in net assets with restrictions                 | <u>3,874,509</u>                            | -                                  | <u>3,874,509</u>    |
| Change in net assets                                     | <u>\$ 3,228,545</u>                         | <u>\$ (288,287)</u>                | <u>\$ 2,940,258</u> |

# Auditor's Summary

## Special-Purpose Financial Audit of the Hawai'i Convention Center

Financial Statements, Fiscal Year Ended December 31, 2019



PHOTO: THINKSTOCK.COM

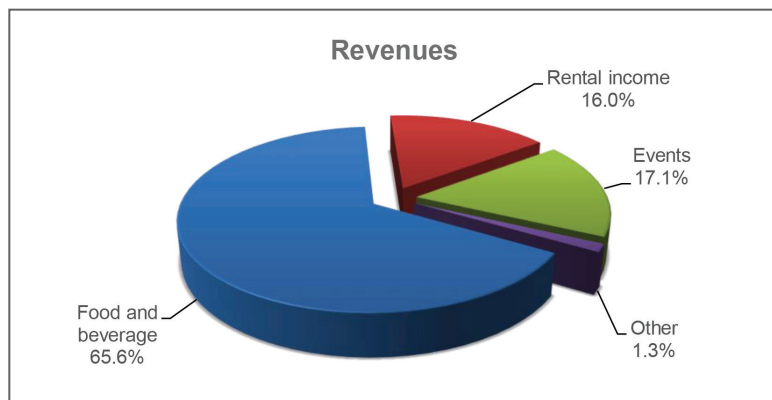
***THE PRIMARY PURPOSE** of the special-purpose audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai'i Convention Center, as of and for the year ended December 31, 2019. The special-purpose financial statements have been prepared pursuant to the provisions of the management agreement between the Hawai'i Tourism Authority and AEG Management HCC, LLC (AEG), a private company contracted to operate the Hawai'i Convention Center. The audit was conducted by Accuity LLP.*

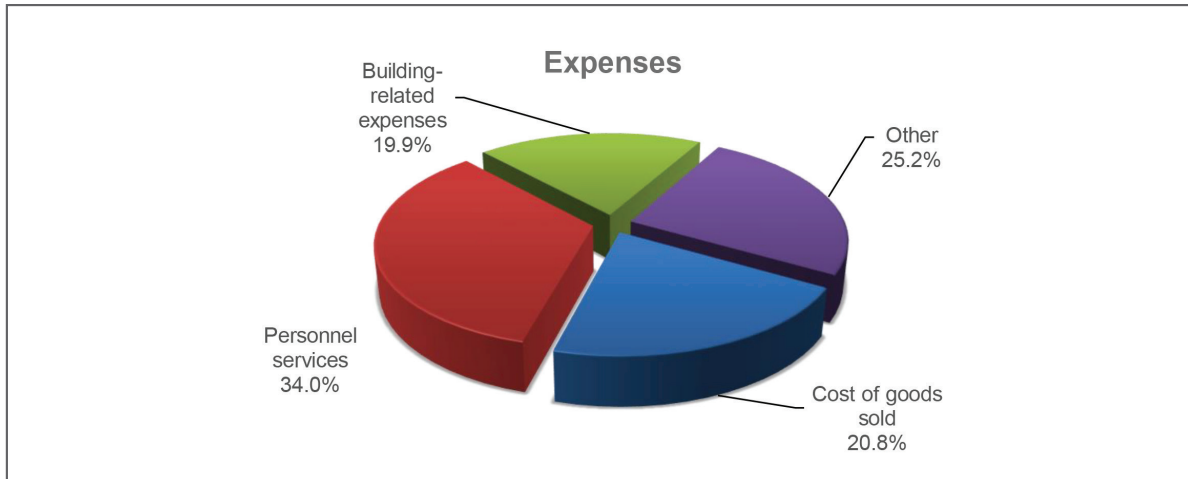
### About the Center

**THE HAWAI'I CONVENTION CENTER** (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. The Hawai'i Tourism Authority assumed responsibility for the operation, management, and maintenance of the Center in July 2000. The Center is reported as a special revenue fund of the Hawai'i Tourism Authority.

### Financial Highlights

**FOR THE YEAR ENDED** December 31, 2019, the Center reported total revenues of \$16.9 million, total expenses of \$23.5 million, and \$12.8 million in net contributions from the Hawai'i Tourism Authority, which resulted in an increase in net assets of \$6 million. Revenues consisted of (1) \$11.1 million from food and beverage; (2) \$2.7 million from rental income; (3) \$2.9 million from events; and (4) \$200,000 from other revenues.





Expenses consisted of (1) \$8 million for personnel services; (2) \$4.7 million for building-related expenses; (3) \$4.9 million for cost of goods sold; and (4) \$5.9 million for other costs.

As of December 31, 2019, the Center’s total assets of \$30 million were comprised of (1) cash of \$19.5 million; (2) amounts due from Hawai‘i Tourism Authority of \$8.7 million; (3) accounts receivable of \$1.2 million; and (4) other assets of \$600,000. Total liabilities of \$4.5 million were comprised of (1) accounts payable of \$1.9 million; (2) amounts due to Hawai‘i Tourism Authority of \$1.1 million; (3) advance deposits of \$700,000; and (4) other liabilities of \$800,000.

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 in the Center’s special-purpose financial statements. Those assets, liabilities, and related expenses are reflected on the financial statements of the Hawai‘i Tourism Authority.

## Auditors’ Opinion

**THE CENTER RECEIVED AN UNMODIFIED OPINION** that its financial statements were presented fairly, in all material respects, in accordance with the management agreement between the Hawai‘i Tourism Authority and AEG, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

For the complete report and financial statements for the Hawai‘i Convention Center, visit our website at:  
[https://files.hawaii.gov/auditor/Reports/2019\\_Audit/ConventionCenter2019.pdf](https://files.hawaii.gov/auditor/Reports/2019_Audit/ConventionCenter2019.pdf)

Financial statements for the Hawai‘i Tourism Authority can be found here:  
[https://files.hawaii.gov/auditor/Reports/2019\\_Audit/HTA2019.pdf](https://files.hawaii.gov/auditor/Reports/2019_Audit/HTA2019.pdf)