

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER**

**SPECIAL-PURPOSE FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Capital Region Development Authority
Hartford, Connecticut

We have audited the accompanying special-purpose statements of assets, liabilities and owner's equity of the Connecticut Convention Center (the "Convention Center"), which is owned by the Capital Region Development Authority (the "Authority") and operated by Waterford Venue Services Hartford, LLC ("Waterford") as of June 30, 2017 and 2016, and the related special-purpose statements of revenues, expenses and changes in owner's equity and cash flows for the years then ended and the related notes to the special-purpose financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the management agreement dated July 1, 2010, between the Authority and Waterford. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audits 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 assets, liabilities and owner's equity of the Convention Center, as of June 30, 2017 and 2016, and the revenues, expenses and changes in owner's equity and cash flows for the years then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the special-purpose financial statements, which describes the basis of accounting. The accompanying special-purpose financial statements were prepared for the purpose of complying with the management agreement dated July 1, 2010, between the Authority and Waterford, as discussed in Note 1, 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 management agreement referred to above. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Capital Region Development Authority and Waterford Venue Services Hartford, LLC, and is not intended to be and should not be used by anyone other than these specified parties.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
September 29, 2017

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
STATEMENTS OF ASSETS, LIABILITIES AND OWNER'S EQUITY
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Current assets:		
Cash	\$ 2,285,297	\$ 1,985,446
Restricted cash	826,306	692,595
Accounts receivable	270,470	193,480
Inventory	101,417	105,725
Prepaid expenses	125,792	99,422
Due from State	-	2,576
Total assets	3,609,282	3,079,244
 LIABILITIES		
Current liabilities:		
Accounts payable	\$ 974,464	\$ 610,738
Accrued expenses	944,102	697,670
Advanced collections	825,473	689,261
Total liabilities	2,744,039	1,997,669
 OWNER'S EQUITY	865,243	1,081,575
Total liabilities and owner's equity	3,609,282	3,079,244

See auditor's report and accompanying notes to financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN OWNER'S EQUITY
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Rent	\$ 2,325,348	\$ 2,152,185
Event services income	2,588,762	2,671,703
Food and beverage income	5,527,259	4,476,839
Other income	<u>120,912</u>	<u>310,586</u>
Total revenues	<u>10,562,281</u>	<u>9,611,313</u>
OPERATING EXPENSES		
Salaries	4,302,056	4,413,380
Event services	1,964,712	2,000,697
Payroll taxes and benefits	1,749,830	1,725,314
Utilities	1,559,951	1,424,279
Food and beverage	1,393,556	1,190,717
Maintenance	591,280	632,770
Operational supplies	431,965	359,935
Sales and marketing	416,045	366,004
Management fees	319,066	317,570
Finance	124,942	91,203
Insurance	124,456	123,764
Incentive management fees	105,042	1,633
Other administrative	102,761	81,536
Other expenses	39,251	30,549
Security	<u>20,190</u>	<u>16,864</u>
Total expenses	<u>13,245,103</u>	<u>12,776,215</u>
Net loss	(2,682,822)	(3,164,902)
OWNER'S EQUITY, BEGINNING OF YEAR	1,081,575	1,656,869
CAPITAL CONTRIBUTIONS, NET		
Capital improvements	(923,329)	(2,053,502)
Capital contributions - State	<u>373,950</u>	<u>1,667,387</u>
Total capital contributions, net	<u>(549,379)</u>	<u>(386,115)</u>
DEBT SERVICE	<u>(792,431)</u>	<u>(832,577)</u>
OPERATING CONTRIBUTIONS, NET	<u>3,808,300</u>	<u>3,808,300</u>
OWNER'S EQUITY, END OF YEAR	<u>\$ 865,243</u>	<u>\$ 1,081,575</u>

See auditor's report and accompanying notes to financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,682,822)	\$ (3,164,902)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(76,990)	127,965
Prepaid expenses	(26,368)	10,222
Inventory	4,308	(9,880)
Due from state	2,576	170,947
Increase (decrease) in:		
Advanced collections	136,210	100,637
Accrued expenses	246,432	(447,405)
Accounts payable	363,726	183,987
Net cash used in operating activities	(2,032,928)	(3,028,429)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Operating contributions	3,808,300	3,808,300
Net cash provided by non-capital financing activities	3,808,300	3,808,300
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(923,329)	(2,053,502)
Capital contributions	373,950	1,667,387
Debt service	(792,431)	(832,577)
Net cash used in capital and related financing activities	(1,341,810)	(1,218,692)
NET INCREASE (DECREASE) IN CASH	433,562	(438,821)
CASH, beginning of year	2,678,041	3,116,862
CASH, end of year	\$ 3,111,603	\$ 2,678,041
Cash, end of year:		
Unrestricted cash	\$ 2,285,297	\$ 1,985,446
Restricted cash	826,306	692,595
	\$ 3,111,603	\$ 2,678,041

See auditor's report and accompanying notes to financial statements.

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Capital Region Development Authority (the "Authority") was established in 1998 as the Capital City Economic Development Authority under Title 32, Chapter 600 of the General Statutes of the State of Connecticut (the "Act"), as amended, and was created as a body politic and instrumentality of the State of Connecticut (the "State"). In 2012, the General Assembly renamed the Authority and expanded its powers to serve as a regional planning authority. The powers of the Authority are vested in its thirteen member Board of Directors appointed pursuant to C.G.S § 32-601.

The Connecticut Convention Center (the "Convention Center") is a public use facility which houses business functions, sporting events, and other entertainment programs for the general public. The accompanying special-purpose financial statements are intended to only present those activities managed by Waterford Venue Services Hartford, LLC ("Waterford") relating to Convention Center events including event services income and related rent and food and beverage income, but excluding parking revenues and certain other revenues. The Convention Center is owned by the Authority. Accounts and activities of other operations of the Authority are not reflected in the accompanying special-purpose financial statements. Financial statements containing all activities of the Authority may be obtained from the Authority.

Nature of Operations

The purpose of the Convention Center, which commenced operations in June 2005, is to attract and service large conventions, tradeshows, exhibitions, conferences and local consumer shows in order to stimulate new investment in Connecticut. Additional goals of the Convention Center are to broaden the base of the tourism effort and stimulate surrounding economic development in order to generate increased tax revenues for the State.

Basis of Accounting

The accompanying special-purpose financial statements present the assets, liabilities, owner's equity, revenues, expenses, and cash flows of the Convention Center pursuant to the management agreement dated July 1, 2010, between the Authority and Waterford. The management agreement specifies that the special-purpose financial statements be prepared on a basis in which all the assets and liabilities of the Convention Center are presented in accordance with accounting principles generally accepted in the United States of America, except for capital assets and debt, which are not to be presented as assets or liabilities. All capital assets of the Convention Center, including the Convention Center itself, are owned by the Authority and operated by Waterford.

For purposes of the special-purpose financial statements, debt and capital assets associated with the Convention Center have been excluded from the statements of assets, liabilities and owner's equity and operating contributions provided by the Authority have been excluded from the determination of net loss in the statement of revenues, expenses and changes in owner's equity. Debt repayments, capital purchases and operating contributions have instead been presented as a component of owner's equity.

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Use of Estimates

The preparation of special-purpose financial statements in conformity with the basis of accounting referred to above requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash Equivalents

All highly liquid instruments purchased with an original maturity of three months or less are considered to be cash equivalents. There were no cash equivalents as of June 30, 2017 or 2016.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory is comprised of various food and beverage items used in operations.

Revenue Recognition

Revenue, including event services income and related rent and food and beverage income, is recognized upon completion of the event. Cash received in advance of the applicable event is presented as a liability from customer deposits.

NOTE 2 – CREDIT RISK

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statements to conform to the June 30, 2017 presentation.

Cash Deposits - Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All of the Convention Center's cash deposits were in qualified public institutions as defined by Connecticut General Statutes, which states that any bank holding public deposits must at all times, maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is great. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

The cash attributed to the Convention Center represents only a portion of the Authority's total cash deposits and additional disclosures regarding custodial credit risk may be obtained from the Authority.

**CAPITAL REGION DEVELOPMENT AUTHORITY
CONNECTICUT CONVENTION CENTER
NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 2 – CREDIT RISK

Accounts Receivable

Credit is generally granted to customers without collateral. As of June 30, 2017, approximately 57% of accounts receivable were due from four customers. As of June 30, 2016, approximately 59% of accounts receivable were due from four customers. Based on historical collection experience and the nature of the receivables, management has determined that an allowance for doubtful accounts is not considered necessary as of June 30, 2017 and 2016.

NOTE 3 – COMMITMENTS

Waterford manages the operations of the Convention Center. The initial term of the management agreement was for a period of three years after the opening of the Convention Center with options to extend for two additional years. The second of two one year options was exercised, extending the management agreement until June of 2010. On July 1, 2010, a new management agreement was executed extending the services of Waterford through June 30, 2015. This agreement was extended for two additional one-year terms and expired on June 30, 2017. A new 5-year agreement was entered into effective July 1, 2017. Base management fees paid for the fiscal years ended June 30, 2017 and 2016 totaled \$199,544 and \$198,608, respectively.

Separately, Waterford has agreed to manage the catering and concessions used by the Convention Center. This agreement is also for a period of three years with options to extend for two additional years. On July 1, 2010, a new catering and concessions agreement was executed extending the services of Waterford through June 30, 2015. This agreement was extended for two additional one-year terms and expired on June 30, 2017. A new 5-year agreement was entered into effective July 1, 2017. Base catering and concession fees paid for the fiscal years ended June 30, 2017 and 2016 totaled \$119,522 and \$118,962, respectively.

The management and catering and concessions agreements both contain provisions for Waterford to earn incentive fees, based upon certain targets being met, as defined in the agreements. For the years ended June 30, 2017 and 2016, Waterford earned incentive management fees totaling \$105,042 and \$1,633, respectively.

NOTE 4 – RELATED PARTY

As part of normal operations, certain utility services are provided by facilities also under the ownership of the Authority. Amounts paid for these utility services totaled \$815,410 and \$709,809 for the fiscal years ended June 30, 2017 and 2016, respectively, and are included in utilities expense in the accompanying statement of revenues, expenses and changes in owner's equity.