Capital Region Development Authority
Connecticut Convention Center

Financial Statements
and Independent Auditor's Report

June 30, 2020 and 2019

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Index

	Page
Independent Auditor's Report	2
Financial Statements	
Statements of Assets, Liabilities and Owner's Equity/(Deficit) - Contractual Basis	4
Statements of Revenues, Expenses and Changes in Owner's Equity/(Deficit) - Contractual Basis	5
Statements of Cash Flows - Contractual Basis	6
Notes to Financial Statements	7

Independent Auditor's Report

To the Board of Directors
Capital Region Development Authority

We have audited the accompanying financial statements of the Connecticut Convention Center affiliated with the Capital Region Development Authority (the "Convention Center"), which is owned by the Capital Region Development Authority (the "Authority") and operated by Waterford Venue Services Hartford, LLC ("Waterford"), which comprise the statements of assets, liabilities and owner's equity/(deficit) - contractual basis as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in owner's equity/(deficit) - contractual basis and cash flows - contractual basis 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 financial statements in accordance with financial reporting provisions of the management agreement dated July 1, 2017, 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 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 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 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 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, 2020 and 2019, and the revenues, expenses and changes in owner's equity/(deficit) and cash flows for the years then ended, in accordance with the financial reporting provisions of the management agreement.

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Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared by the Authority on the basis of the financial reporting provisions specified in the management agreement dated July 1, 2017, between the Authority and Waterford, 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 this 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.

CohnReznick LLP

Hartford, Connecticut
September 18, 2020

Capital Region Development Authority
Connecticut Convention Center

Statements of Assets, Liabilities and Owner's Equity/(Deficit) - Contractual Basis
June 30, 2020 and 2019

Assets

	2020	2019
Current assets		
Cash	$ 1,559,070	$ 1,133,389
Restricted cash	641,051	1,215,131
Accounts receivable	301,132	382,483
Inventory	87,901	105,659
Prepaid expenses	148,127	78,006
Total assets	$ 2,737,281	$ 2,914,668

Liabilities and Owner's Equity/(Deficit)

	2020	2019
Current liabilities		
Accounts payable	$ 716,713	$ 602,341
Accrued expenses	525,052	880,756
Unearned revenue	613,369	-
Due to Authority	750,000	-
Advanced collections	743,754	1,214,297
Total liabilities	3,348,888	2,697,394
Owner's equity/(deficit)	(611,607)	217,274
Total liabilities and owner's equity/(deficit)	$ 2,737,281	$ 2,914,668

See Notes to Financial Statements.

Capital Region Development Authority
Connecticut Convention Center

Statements of Revenues, Expenses and Changes in Owner's Equity/(Deficit) - Contractual Basis
Years Ended June 30, 2020 and 2019

	2020	2019
Revenues		
Rent	$ 1,613,419	$ 2,381,134
Event services income	1,908,759	3,049,378
Food and beverage income	4,066,164	5,443,286
Other income	333,756	125,982
Total revenues	7,922,098	10,999,780
Operating expenses		
Salaries	3,775,562	4,529,321
Event services	1,525,898	2,259,719
Payroll taxes and benefits	1,504,155	1,813,883
Utilities	1,559,884	1,669,443
Food and beverage	1,054,565	1,473,770
Maintenance	683,811	724,785
Operational supplies	341,462	488,454
Sales and marketing	226,366	331,222
Management fees	338,831	331,537
Finance	78,781	95,402
Insurance	118,946	116,588
Incentive management fees	-	2,757
Other administrative	127,277	122,202
Other expenses	341,978	35,328
Security	18,974	29,331
Total expenses	11,696,490	14,023,742
Net loss	(3,774,392)	(3,023,962)
Owner's equity, beginning	217,274	362,572
Capital activity, net		
Capital improvements	(254,543)	(192,221)
Debt service	(708,246)	(737,415)
Operating contributions	3,908,300	3,808,300
Owner's equity/(deficit), end	$ (611,607)	$ 217,274

See Notes to Financial Statements.

Capital Region Development Authority
Connecticut Convention Center

Statements of Cash Flows - Contractual Basis
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Receipts from customers	$ 7,532,906	$ 10,883,930
Grant funding	613,369	-
Payments to		
Employees	(5,434,840)	(6,465,406)
Contractors	(916,271)	(608,371)
Suppliers	(5,639,074)	(6,827,832)
Net cash used in operating activities	(3,843,910)	(3,017,679)
Cash flows from noncapital financing activities		
Operating contributions	3,908,300	3,808,300
Net cash provided by noncapital financing activities	3,908,300	3,808,300
Cash flows from capital and related financing activities		
Increase in due to Authority	750,000	-
Purchase of capital improvements	(254,543)	(192,221)
Debt service	(708,246)	(737,415)
Net cash used in capital and related financing activities	(212,789)	(929,636)
Net decrease in cash	(148,399)	(139,015)
Cash, beginning	2,348,520	2,487,535
Cash, end	$ 2,200,121	$ 2,348,520
Cash, end		
Unrestricted cash	$ 1,559,070	$ 1,133,389
Restricted cash	641,051	1,215,131
	$ 2,200,121	$ 2,348,520
Reconciliation of net loss to net cash used in operating activities		
Net loss	$ (3,774,392)	$ (3,023,962)
Adjustments to reconcile net loss to net cash used in operating activities		
(Increase) decrease in operating assets		
Accounts receivable	81,351	(192,231)
Inventory	17,758	10,364
Prepaid expenses	(70,121)	(33,976)
Increase (decrease) in operating liabilities		
Accounts payable	114,372	76,391
Accrued expenses	(355,704)	69,354
Unearned revenue	613,369	-
Advanced collections	(470,543)	76,381
Net cash used in operating activities	$ (3,843,910)	$ (3,017,679)

See Notes to Financial Statements.

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 14-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 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 revenue and certain other revenue. The Convention Center is owned by the Authority. Accounts and activities of other operations of the Authority are not reflected in the accompanying 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 revenue for the State.

Basis of accounting

The accompanying financial statements have been prepared to present the assets, liabilities, owner's equity/(deficit), revenues, expenses, and cash flows of the Convention Center pursuant to the management agreement dated July 1, 2017, between the Authority and Waterford. The management agreement specifies that the financial statements be prepared on a basis in which all the assets and liabilities of the Convention Center are presented under a contractual basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). That basis differs from GAAP in the areas of 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 financial statements, capital assets and debt associated with the Convention Center have been excluded from the statements of assets, liabilities and owner's equity/(deficit) - contractual basis and operating contributions provided by the Authority have been excluded from the determination of net loss in the statements of revenues, expenses and changes in owner's equity/(deficit) - contractual basis. Debt repayments, capital purchases and operating contributions have instead been presented as a component of owner's equity/(deficit).

Use of estimates

The preparation of 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 debt 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, 2020 or 2019.

Restricted cash

Cash reserves whose use is specified or limited by third parties for future events are classified as restricted cash in the accompanying statements of assets, liabilities and owner's equity/(deficit) - contractual basis.

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 advanced collections.

Unearned revenue as of June 30, 2020 represents grant funding received which has not yet been spent.

Note 2 - Credit risk

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 greater. 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.

Accounts receivable

Credit is generally granted to customers without collateral. As of June 30, 2020, 100% of accounts receivable were due from two customers. As of June 30, 2019, approximately 74% 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, 2020 and 2019.

Note 3 - Due to Authority

In June 2020, the Authority advanced funding to the Convention Center in the amount of $750,000 to fund the operating deficit. This funding must be repaid to the Authority. Amounts due to the Authority totaled $750,000 and $-0- as of June 30, 2020 and 2019, respectively.

Note 4 - Commitments

Waterford manages the operations of the Convention Center. The initial term of the management agreement was for a period of three years and has been renewed. A new five-year agreement was entered into effective July 1, 2017. Base management fees paid for the years ended June 30, 2020 and 2019 totaled $211,926 and $207,364, respectively.

Separately, Waterford has agreed to manage the catering and concessions used by the Convention Center. A new five-year agreement was entered into effective July 1, 2017. Base catering and concession fees paid for the years ended June 30, 2020 and 2019 totaled $126,905 and $124,173, 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, 2020 and 2019, Waterford earned incentive management fees totaling $-0- and $2,757, respectively.

Note 5 - 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 $868,479 and $924,497 for the years ended June 30, 2020 and 2019, respectively, and are included in utilities expense in the accompanying statements of revenues, expenses and changes in owner's equity/(deficit) - contractual basis.

Note 6 - Contingency

In early 2020, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity. The Convention Center is not able to reliably estimate the length or severity of this outbreak. If the length of the outbreak and related effects on the Convention Center's operations continues for an extended period of time, there could be a loss of revenue and other material adverse effects to the Convention Center's financial position, results of operations, and cash flows.

Note 7 - Subsequent events

Subsequent events were evaluated through September 18, 2020, which is the date the financial statements were available to be issued.

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