

STATE OF CONNECTICUT



*AUDITORS' REPORT
CAPITAL REGION DEVELOPMENT AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2014*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT M. WARD

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AUDITORS OF PUBLIC ACCOUNTS

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AUDITORS' REPORT CAPITAL REGION DEVELOPMENT AUTHORITY FISCAL YEARS ENDED JUNE 30, 2013 AND 2014

We have audited certain operations of the Capital Region Development Authority (CRDA) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2013 and 2014.

The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and

performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified no deficiencies in internal controls, no apparent noncompliance with legal provisions, and no need for improvement in management practices and procedures that we deemed to be reportable.

COMMENTS

FOREWORD

The Capitol Region Development Authority was established as the successor to the Capital City Economic Development Authority in 2012 under Title 32, Chapter 588x of the General Statutes. As a quasi-public agency under Section 1-120 of the General Statutes, the authority is a body politic and corporate, constituting a public instrumentality and a political subdivision of the state. For financial reporting purposes, the authority is a component unit of the state and its financial statements are included in the State of Connecticut's Comprehensive Annual Financial Report (CAFR).

The purpose of CRDA is to operate, maintain, and market the Convention Center project; coordinate the use of all state and municipal planning and financial resources that are available for any capital city project; stimulate new investment in Connecticut; attract and service large conventions, tradeshows, and conferences; encourage diversification of the state's economy; strengthen Hartford's role as the region's major business and industry employment center and seat of government; and encourage residential housing development in downtown Hartford.

Board of Directors and Administrative Officials

In accordance with Section 32-601 subsection (b) of the General Statutes, the governing body of the authority consists of 14 members, as follows: four that shall serve as ex-officio members, four appointed by the Governor, two appointed by the mayor of the city of Hartford, two appointed by the General Assembly, and two that are the mayors of the cities of Hartford and East Hartford. Members of the board of directors as of June 30, 2014, were as follows:

Appointed members:

Suzanne Hopgood Chairperson
Andy Bessette Vice Chairperson
Thomas Deller
Floyd Green
David Jorgensen
Pamela Trotman Reid
Michael Matteo
1 Vacancy

Other members:

Pedro Segarra Mayor, City of Hartford
Marcia Leclerc Mayor, City of East Hartford

Ex-officio members:

Benjamin Barnes Secretary, Office of Policy and Management
Catherine Smith Commissioner, Department of Economic and Community Development
Evonne Klein Commissioner, Department of Housing
James Redeker Commissioner, Department of Transportation

The vacancy has existed since the inception of the authority as the Capitol Region Development Authority in 2012.

James Abromaitis served as the executive director until his resignation on September 28, 2012. Michael Freimuth was selected to fill the executive director vacancy as of October 1, 2012 and served throughout the remainder of the audit period.

New Legislation

Public Act 13-234, section 51, effective July 1, 2013, modified the composition of the CRDA board of directors to include the commissioner of the Department of Housing, increasing the total number of board members from 13 to 14.

Public Act 13-234, Section 52, effective July 1, 2013, grants CRDA jurisdiction over the XL Center and authority to enter into memoranda of understanding concerning the XL Center.

Public Act 13-234, Section 53, effective July 1, 2013, allows the Department of Housing, in addition to the Department of Economic and Community Development, to use the proceeds from the sale of bonds for grants-in-aid for capital city projects, as stipulated by the act.

Public Act 14-227, Section 3, effective October 1, 2014, changes the audit requirement for the stadium facility enterprise fund, revenue account and operating expense account related to the Stadium at Rentschler Field from a comprehensive annual audit to an audit as provided in Section 1-122 of the General Statutes. Subsequent to the audit period, the facility was renamed the Pratt & Whitney Stadium at Rentschler Field.

RÉSUMÉ OF OPERATIONS

Statement of Net Position

Based on the authority's audited financial statements, a summary of assets, liabilities and net position for the audited period follows:

	Fiscal Year Ended June 30,	
	2014	2013
Assets		
Current Assets	\$ 19,761,262	\$ 6,782,420
Noncurrent Assets	301,666,187	281,319,216
Total Assets	321,427,449	288,101,636
Deferred Outflows of Resources		
Accumulated Decrease in Fair Value of Interest Rate Swap		1,976,338
Total Assets and Deferred Outflows of Resources	321,427,449	290,077,974
Liabilities		
Current Liabilities	18,814,753	6,071,578
Noncurrent Liabilities	129,243,605	130,491,387
Total Liabilities	148,058,358	136,562,965
Net Position		
Net Investment in Capital Assets	143,323,308	143,570,451
Restricted	25,885,758	5,966,659
Unrestricted	4,160,025	3,977,899
Total Net Position	173,369,091	153,515,009
Total Liabilities and Net Position	\$ 321,427,449	\$ 290,077,974

The authority's current assets increased by almost \$13 million during fiscal year 2013-2014, mainly due to the timing of the use of capital funds for facility building improvements and operating funds for the Convention Center and XL Center. The increase in non-current assets of \$20 million was mainly attributable to an increase in housing loans receivable of \$20.5 million. Total liabilities increased by \$11.5 million, primarily due to the inclusion of the XL Center activity and timing related to various facility building improvements, as well as state office relocation projects. The accumulated decrease in fair value of the interest rate swap was reduced to zero in fiscal year 2013-2014 due to the authority's cancellation of the related interest rate swap on June 19, 2014.

The authority is able to issue its own bonds, bond anticipation notes and other obligations to achieve the purposes outlined in Section 32-602 of the General Statutes. Obligations of the authority are not deemed to constitute debt of the state. During the prior fiscal years, the authority issued \$110,000,000 in four series of parking and energy fee revenue bonds, the proceeds of which provided financing for the Adriaen's Landing project. As of June 30, 2014, the authority's bonds outstanding totaled \$91,646,000. CRDA also entered into a \$12,500,000 loan agreement with the Travelers Indemnity Company prior to the audit period, and during fiscal year 2013-2014 incurred debt totaling \$1,351,363 related to CRDA's commencement of operation of the XL Center. Loans outstanding related to the Travelers and XL Center agreements totaled \$10,476,000 as of June 30, 2014. The debt related to the XL Center represents one-time expenses funded by the management company which are payable by the authority.

Pursuant to the provisions of Section 32-608 of the General Statutes, the state and the authority entered into a contractual assistance agreement equal to the amount of the annual debt service on the outstanding bonds. The authority is required to reimburse the state for any assistance received under this contract utilizing parking and energy fee revenues. For the fiscal years 2012-2013 and 2013-2014, respectively, amounts available from parking and energy fee revenues to reimburse the state for contract assistance payments were \$4,204,446 and \$3,863,201 less than the amounts required to fully reimburse the state. As of June 30, 2014, the authority is obligated to repay \$31,273,584 in contract assistance.

Statement of Revenues, Expenses and Changes in Net Assets

Based on the authority's audited financial statements, a summary of revenues, expenses and changes in net assets for the audited period follows:

	Fiscal Year Ended June 30,	
	2014	2013
Operating Revenues:		
Grants-State of Connecticut	\$ 10,392,577	\$ 6,191,691
Combined Facilities	35,183,266	18,091,273
Other Operating Revenue	184,830	11,063
Total Operating Revenues	45,760,673	24,294,027
Operating Expenses		
Personnel and General	1,265,275	1,101,899
On-behalf Expenses	750,086	271,546
Combined Facilities	39,617,074	23,427,094
Depreciation and amortization Expense	9,803,397	9,579,645
Total Operating Expenses	51,435,832	34,380,184
Income (Loss) from Operations	(5,675,159)	(10,086,157)

Non-Operating Revenue (Expense)

Interest Income	105,916	15,922
Interest Expense	<u>(4,546,012)</u>	<u>(4,691,207)</u>
Non-Operating Revenue (Expense), net	<u>(4,440,096)</u>	<u>(4,675,285)</u>
Capital Contributions - State of CT	7,745,544	9,096,769
Capital Contributions - Other	1,750,000	
Transfer - State of CT Housing Loan Program	<u>20,473,793</u>	
Change in Net Position	<u>\$ 19,854,082</u>	<u>\$ (5,664,673)</u>

An annual General Fund appropriation funds the operating expenses of the authority and the unexpended balances are carried forward. Grant revenue increases of \$4.2 million were mainly attributable to an additional \$3 million in funding related to the XL Center, which CRDA began overseeing in fiscal year 2013-2014. Grants from the State of Connecticut also included approximately \$1.4 million to fund the operations of the authority, and approximately \$4.8 million to fund the operations of the Convention Center. Increases in revenues from combined facilities of \$17.1 million were mainly attributable to the inclusion of the XL Center, which totaled \$16.6 million, in addition to increased utilization of the Convention Center building during fiscal year 2013-2014. Increases in combined facilities expenses of \$16.2 million were mainly attributable to the inclusion of the XL Center operations, totaling \$20.5 million, which were offset by decreases in development costs.

During fiscal year 2012-2013, the State of Connecticut Bond Commission, through the Special Revenue Bond Fund, established \$60 million in funding for CRDA for the purpose of providing grants or loans to encourage residential housing development under the State of CT Housing Loan Program, as provided in Section 32-617g of the General Statutes. Of the available funds, \$30,625,000 and \$11,089,977 was allocated to projects during fiscal years 2012-2013 and 2013-2014, respectively. As of June 30, 2014, \$18,285,023 in funding remains unallocated. During fiscal year 2013-2014, the authority recognized almost \$20.5 million as a transfer in for the Housing Loan Program, all of which was subsequently disbursed as loans or other financial assistance.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

There were no recommendations developed as a result of this audit examination.

RECOMMENDATIONS

Our prior audit report contained one recommendation, which was implemented or otherwise resolved.

Status of Prior Audit Recommendations:

- The Capital Region Development Authority should monitor compliance with its Personnel Policy and Procedures Manual for the conflict of interest and ethics training requirements to minimize the risk that an employee's action might result in personal gain while serving in the professional capacity at the authority. The current review noted improved controls and monitoring of compliance with authority procedures related to conflict of interest and ethics matters. As a result, the recommendation will not be repeated.

Current Audit Recommendations:

There were no recommendations developed as a result of this examination.

CONCLUSION

We wish to express our appreciation for the cooperation and courtesies extended to our representatives by the personnel of the Capital Region Development Authority during our examination.



Douglas Stratoudakis
Principal Auditor

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts