



HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

Financial Statements

June 30, 2009

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR
STATE OF HAWAII

HAWAII TOURISM AUTHORITY
(A Component Unit of the State of Hawaii)

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KPMG LLP
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Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hawaii Tourism Authority, a component unit of the State of Hawaii (the Authority), as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain evidence supporting the amount due to the State Department of Budget and Finance as of June 30, 2009 as described in note 8 to the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain evidence supporting the amount due to the State Department of Budget and Finance, the financial statements referred to in the first paragraph above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2009, and the respective changes in its financial position and the respective budgetary comparisons thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

August 26, 2010

HAWAII TOURISM AUTHORITY
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Management's Discussion and Analysis

June 30, 2009

The Hawaii Tourism Authority (the Authority) was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998. The Authority is responsible for developing and implementing a strategic tourism marketing plan to enhance and promote the tourism industry in the State of Hawaii. As management of the Authority, we offer readers of these basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2009. This discussion and analysis is designed to assist the reader in focusing on the Authority's significant financial issues and activities and to identify any significant changes in the Authority's financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the fiscal year's revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

- *The Statement of Net Assets* presents all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator to determine whether the financial position of the Authority is improving or deteriorating.
- *The Statement of Activities* presents information showing the Authority's revenues and expenses for the fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown, net of related program revenue. This statement shows the extent to which the various functions depend on taxes and nonprogram revenues for support.

Fund Financial Statements

A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation on pages 12 and 13 to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three governmental funds (General Fund, Tourism Special Fund, and Convention Center Enterprise Special Fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each of these funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for by the Authority in an agency capacity.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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June 30, 2009

Condensed Financial Information

The following are summaries from the Authority's government-wide financial statements as of and for the years ended June 30, 2009 and 2008 (in thousands):

Condensed Statements of Net Assets

June 30, 2009 and 2008

	2009	2008
Assets:		
Current assets	\$ 28,125	51,219
Capital assets	255,132	260,362
Investments – noncurrent	8,380	—
Cash held by SMG	7,982	4,869
Total assets	299,619	316,450
Liabilities:		
Current liabilities	21,939	26,850
Other noncurrent liabilities	257,272	267,451
Total liabilities	279,211	294,301
Net assets:		
Invested in capital assets, net of related debt	(11,953)	(16,538)
Restricted	32,361	38,687
Total net assets	\$ 20,408	22,149

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Management's Discussion and Analysis

June 30, 2009

Condensed Statements of Activities

Years ended June 30, 2009 and 2008

	2009	2008
Revenues:		
Program:		
Charges for services	\$ 10,768	14,036
General:		
Transient accommodations tax	103,011	110,881
Other	844	1,871
Total revenues	114,623	126,788
Expenses:		
Convention Center:		
Contract	22,541	22,837
Interest on debt obligation to State Department of Budget and Finance	16,320	16,892
Depreciation	7,391	7,269
Payroll	254	216
General and administrative	12	30
	46,518	47,244
Tourism and marketing:		
Contract	59,015	68,549
Payroll	2,342	2,317
General and administrative	773	1,027
	62,130	71,893
Total expenses	108,648	119,137
Transfers	(7,716)	(1,869)
Change in net assets	(1,741)	5,782
Beginning net assets	22,149	16,367
Ending net assets	\$ 20,408	22,149

Financial Analysis

Current Assets decreased by \$23.1 million, or 45%, primarily due to a decrease in short-term investments and due from Hawaii Convention Center of \$25.4 million and \$1.8 million, respectively, partially offset by an increase in cash of \$3.1 million. Cash and investments are available for current contracts for marketing and product development.

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June 30, 2009

Capital Assets decreased by \$5.2 million, or 2%, due to the recording of current year depreciation expense of \$7.4 million, partially offset by net current year additions and disposals of approximately \$2.0 million. A substantial portion of the Authority's capital asset additions pertains to renovations and improvements to the Hawaii Convention Center (note 5).

Cash Held by SMG increased by \$3.1 million, or 64%. This represents an amount of allotment to be used for unplanned major capital improvement projects for the Hawaii Convention Center.

Noncurrent Investments increased by \$8.4 million, or 100%, due to an increase in purchases of investments with longer maturity lives.

Current Liabilities decreased by \$4.9 million, or 18%, primarily due to a decrease in vouchers payable of \$3.7 million resulting from the timing of cost incurrence and payments, a decrease in amounts due to the State Department of Budget and Finance of \$0.6 million and a decrease in amounts due to Hawaii Convention Center of \$0.7 million. Amounts due to the State Department of Budget and Finance pertain to current year reimbursements due to the State Department of Budget and Finance for debt service payments made on general obligation bonds whose proceeds were used to fund the construction of the Hawaii Convention Center.

Other Noncurrent Liabilities consist primarily of amounts due to the State Department of Budget and Finance subsequent to the ensuing year. The decrease represents payments made to the State Department of Budget and Finance during the year.

Revenues decreased by \$12.2 million, or 10%, due to a decrease in transient accommodations tax revenue of \$7.9 million, a decrease of \$3.3 million from the operations of the Hawaii Convention Center and a decrease of \$1 million in interest. The decrease in transient accommodations tax revenue is attributed to the decline in tourism in the current fiscal year that resulted in less collections from transient accommodations taxes. The decrease in revenue from the operations of the Hawaii Convention Center is due to fewer events held in the current fiscal year as compared to the prior fiscal year. The decrease in revenue from interest is due to a decline in interest rates and a result of the weakened global economy.

Expenses decreased by \$10.5 million, or 9%, primarily due to decreases in tourism and marketing contract costs. The decrease in tourism and marketing contract costs is primarily due to budget reductions and the timing of various expenses in tourism and marketing and other program initiatives.

Transfers increased by \$5.8 million, or 313%, primarily due to a \$5 million transfer from Tourism Special Fund to the Fiduciary Fund.

Financial Analysis of the Authority's Individual Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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Management's Discussion and Analysis

June 30, 2009

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Authority's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$33.3 million, a decrease of \$9.5 million in comparison with the prior fiscal year. Approximately, \$9.7 million or 29% of this total amount constitutes unreserved fund balance, which is available for spending should the Legislature authorize such spending in the coming fiscal year. The remainder of fund balance is reserved to indicate that it is not available for new spending, because it has already been committed to liquidate contracts and purchase orders of the prior period, or is legally segregated for a specific future use.

The Tourism Special Fund is used to account for functions related to the development and promotion of the tourism industry. At the end of the current fiscal year, unreserved fund balance of the Tourism Special Fund was \$5.1 million, an increase of 164% from the prior fiscal year, and the reserved fund balance was \$23.6 million, a decrease of 21% from the prior fiscal year. As a measure of the Tourism Special Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8% of total Tourism Special Fund's expenditures, an increase of 5% from the prior fiscal year, while total fund balance represents 46% of that same amount, an increase of 2% from the prior fiscal year.

The Convention Center Enterprise Special Fund was established by Act 253, Session Laws of Hawaii 2002 (Act 253) to receive all revenues generated from the operation of the Hawaii Convention Center and an allocated portion of the revenues received from the State of Hawaii's transient accommodations tax. Funds collected by the Convention Center Enterprise Special Fund are used to pay all expenses arising from the use and operation of the Hawaii Convention Center and to reimburse the State Department of Budget and Finance for debt service payments on general obligation bonds issued for construction of the Hawaii Convention Center. In accordance with Act 253, the operations of the Convention Center Enterprise Special Fund are included in the Authority's financial statements. At the end of the current fiscal year, the Convention Center Enterprise Special Fund had an unreserved fund balance of \$4.6 million and a reserved fund balance of \$0.

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Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the Authority had \$255 million invested in capital assets as shown in the following table. There was a net decrease (additions, deductions, and depreciation) of \$5.2 million from the end of the prior fiscal year.

	<u>2009</u>	<u>2008</u>
Land	\$ 131,496,508	131,496,508
Buildings and improvements	209,152,821	207,800,999
Furniture, fixtures, and equipment	<u>4,445,888</u>	<u>3,780,134</u>
	345,095,217	343,077,641
Accumulated depreciation	<u>89,963,095</u>	<u>82,715,409</u>
Total	<u>\$ 255,132,122</u>	<u>260,362,232</u>

This year's significant additions included \$2.2 million for the Hawaii Convention Center. Additional information regarding the Authority's capital assets can be found in note 5.

Indebtedness

As of June 30, 2009, the Authority had \$277.2 million of amounts due to the State Department of Budget and Finance compared to \$288.2 million as of June 30, 2008, which represents a decrease of 3.8% from prior year. Additional information regarding the Authority's indebtedness can be found in note 8.

Economic Factors and Current Known Facts

Due to the economic crisis, the global market downturn, and the H1N1 flu epidemic concerns, the world tourism industry has experienced major reductions in its traveling constituents. This reduced world tourism activity has affected Hawaii's tourism industry and the Authority continues to operate with a reduced budget.

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Statement of Net Assets

June 30, 2009

Assets

Current assets:	
Cash (note 3)	\$ 14,923,490
Investments (note 4)	1,945,678
Transient accommodations tax receivable	10,258,485
Due from Hawaii Convention Center	888,831
Other current assets	108,277
Total current assets	28,124,761
Capital assets (note 5):	
Land	131,496,508
Other capital assets, net	123,635,614
	255,132,122
Investments (note 4)	8,379,714
Other assets (note 6)	7,982,441
Total noncurrent assets	271,494,277
Total assets	299,619,038

Liabilities and Net Assets

Current liabilities:	
Vouchers payable	1,072,242
Due to State Department of Budget and Finance (note 8)	20,486,495
Accrued wages	99,673
Accrued vacation (note 7)	113,052
Postemployment liability (note 9)	168,000
Total current liabilities	21,939,462
Accrued vacation (note 7)	294,488
Postemployment liability (note 9)	297,295
Due to State Department of Budget and Finance, net of current portion (note 8)	256,680,288
Total liabilities	279,211,533
Commitments and contingencies (notes 1, 7, 8, 9, and 10)	
Net assets:	
Invested in capital assets, net of related debt	(11,953,166)
Restricted	32,360,671
Total net assets	\$ 20,407,505

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Statement of Activities

Year ended June 30, 2009

	Functional programs		
	Hawaii Convention Center management	Tourism and marketing	Total
Expenses:			
Contract expenses	\$ 22,540,860	59,014,927	81,555,787
Interest on debt obligation to State Department of Budget and Finance (note 8)	16,319,567	—	16,319,567
Depreciation (note 5)	7,391,465	—	7,391,465
Payroll (note 9)	254,241	2,341,781	2,596,022
General and administrative	11,724	773,676	785,400
Total expenses	46,517,857	62,130,384	108,648,241
Program revenues – charges for services	10,768,294	—	10,768,294
Net expenses	\$ 35,749,563	62,130,384	97,879,947
General revenues:			
Transient accommodations tax			103,010,923
Interest			766,228
Net increase in the fair value of investments			77,430
Total general revenues			103,854,581
Transfers to fiduciary fund			(4,990,000)
Transfers to other state departments			(2,726,520)
Change in net assets			(1,741,886)
Net assets at July 1, 2008			22,149,391
Net assets at June 30, 2009			\$ 20,407,505

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Balance Sheet – Governmental Funds

June 30, 2009

Assets	<u>Tourism Special Fund</u>	<u>Convention Center Enterprise Special Fund</u>	<u>Total Governmental Funds</u>
Cash in bank (note 3)	\$ 13,723,815	1,199,675	14,923,490
Investments (note 4)	9,200,290	1,125,102	10,325,392
Transient accommodations tax receivable	6,812,431	3,446,054	10,258,485
Due from Hawaii Convention Center	—	888,831	888,831
Other assets	99,655	8,622	108,277
Total assets	<u>\$ 29,836,191</u>	<u>6,668,284</u>	<u>36,504,475</u>
Liabilities and Fund Balances			
Liabilities:			
Vouchers payable	\$ 1,072,242	—	1,072,242
Due to State Department of Budget and Finance (note 8)	—	2,068,936	2,068,936
Accrued wages and employee benefits payable	90,417	9,256	99,673
Total liabilities	<u>1,162,659</u>	<u>2,078,192</u>	<u>3,240,851</u>
Fund balances:			
Reserved for encumbrances	23,604,637	—	23,604,637
Unreserved	5,068,895	4,590,092	9,658,987
Total fund balances	<u>28,673,532</u>	<u>4,590,092</u>	<u>33,263,624</u>
Total liabilities and fund balances	<u>\$ 29,836,191</u>	<u>6,668,284</u>	
Amounts reported in the statement of net assets are different because (note 1):			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds			255,132,122
Difference between accounting for amounts held by SMG for future capital expenditures in the statement of net assets and in the governmental funds			7,982,441
Long-term liabilities, including unmatured debt obligation to State Department of Budget and Finance, are not due and payable in the current period and, therefore, are not reported in the funds			(267,085,288)
Accrued interest related to long-term liabilities is not due and payable in the current period and, therefore, is not reported in the funds			(8,012,559)
Accrued vacation and postemployment liability reported in the statement of net assets do not require the use of current financial resources and, therefore, are not reported as liabilities in the governmental funds			(872,835)
Net assets of governmental activities			<u>\$ 20,407,505</u>

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds

Year ended June 30, 2009

	Tourism Special Fund	Convention Center Enterprise Special Fund	Total Governmental Funds
Revenues:			
Transient accommodations tax	\$ 71,993,369	31,017,554	103,010,923
Hawaii Convention Center operations	—	10,768,294	10,768,294
Interest	538,308	227,920	766,228
Net increase in the fair value of investments	65,436	11,994	77,430
Total revenues	72,597,113	42,025,762	114,622,875
Expenditures:			
Contract expenditures	59,014,927	27,815,864	86,830,791
Interest on debt obligation to State Department of Budget and Finance (note 8)	—	26,429,017	26,429,017
Personnel	2,137,465	227,212	2,364,677
Administrative and general	773,676	11,724	785,400
Total expenditures	61,926,068	54,483,817	116,409,885
Excess (deficiency) of revenues over expenditures	10,671,045	(12,458,055)	(1,787,010)
Other financing sources (uses):			
Transfers in (out)	(10,990,000)	6,000,000	(4,990,000)
Transfers to other state departments	(2,726,520)	—	(2,726,520)
Total other financing sources (uses)	(13,716,520)	6,000,000	(7,716,520)
Deficiency of revenues over expenditures and other financing sources (uses)	(3,045,475)	(6,458,055)	(9,503,530)
Fund balances at July 1, 2008	31,719,007	11,048,147	
Fund balances at June 30, 2009	\$ 28,673,532	4,590,092	

Amounts reported in the statement of activities are different because (note 1):

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital expenditures for the year	(5,230,110)
Difference between accounting for cash paid to SMG for future capital expenditures in the statement of activities and in the governmental funds	3,113,649
Repayment of debt obligation principal is an expenditure in the government funds, but the payment reduces long-term liabilities in the statement of net assets	9,815,000
Difference between accounting for interest expense in the statement of activities and in the governmental funds	294,450
Accrued vacation and postemployment liability reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(231,345)
Change in net assets	\$ (1,741,886)

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – General Fund, Tourism Special Fund, and Convention Center Enterprise Special Fund

Year ended June 30, 2009

	Tourism Special Fund				Convention Center Enterprise Special Fund			
	Original budget	Final budget	Actual (budgetary basis)	Variance favorable (unfavorable)	Original budget	Final budget	Actual (budgetary basis)	Variance favorable (unfavorable)
Revenues:								
Transient accommodations tax	\$ 88,055,000	88,170,691	71,029,987	(17,140,704)	33,000,000	33,000,000	30,663,126	(2,336,874)
Hawaii Convention Center operations	—	—	—	—	12,508,979	12,523,704	10,837,915	(1,685,789)
Interest	—	—	446,904	446,904	—	—	226,842	226,842
Other	—	—	130,454	130,454	—	—	—	—
Total revenues	88,055,000	88,170,691	71,607,345	(16,563,346)	45,508,979	45,523,704	41,727,883	(3,795,821)
Expenditures	79,328,480	79,444,171	60,275,340	19,168,831	52,008,979	52,023,704	52,008,927	(14,777)
Excess (deficiency) of revenues over expenditures	8,726,520	8,726,520	11,332,005	2,605,485	(6,500,000)	(6,500,000)	(10,281,044)	(3,781,044)
Other financing sources (uses)	(8,726,520)	(8,726,520)	(8,726,520)	—	6,500,000	6,500,000	6,000,000	(500,000)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ —	—	2,605,485	2,605,485	—	—	(4,281,044)	(4,281,044)

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Statement of Fiduciary Net Assets – Fiduciary Fund
June 30, 2009

	Trust Fund
Assets:	
Cash in bank (note 3)	\$ 1,309
Investments (note 4)	4,998,691
Liabilities:	
Deposits payable	5,000,000
Net assets	\$ —

See accompanying notes to financial statements.

HAWAII TOURISM AUTHORITY
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Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Hawaii Tourism Authority (the Authority), a discretely presented component unit of the State of Hawaii, have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting and presentation policies used in the preparation of such financial statements.

(a) *The Financial Reporting Entity*

The Authority was established on January 1, 1999 by Act 156, Session Laws of Hawaii 1998 and was placed within the Department of Business, Economic Development and Tourism, State of Hawaii, for administrative purposes only. The Authority is responsible for developing a strategic tourism marketing plan and developing measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan as it relates to the State of Hawaii's (the State) tourism industry, employment, taxes, and lesser known and underutilized destinations. In addition, effective July 1, 2000, control and management of the Hawaii Convention Center (Center) was transferred to the Authority from the Convention Center Authority (CCA) by Executive Order No. 3817. Effective July 1, 2002, the Center, by statute, became the responsibility of the Authority. 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.

The Authority is governed by a board of directors comprising 12 voting and 4 nonvoting members. The governor appoints 12 voting members. In addition, the director of the State Department of Business, Economic Development and Tourism, the director of the State Department of Transportation, the chairperson of the board of the State Department of Land and Natural Resources (DLNR), and the executive director of the State Department of Accounting and General Services State Foundation of Culture and Arts or designated representatives are nonvoting members.

The accompanying basic financial statements present the financial position and the changes in financial position of the Authority and do not purport to, and do not, present fairly the financial position and changes in financial position of the State. The State Comptroller publishes financial statements for the State annually, which includes the Authority's financial activities.

(b) *Government-Wide and Fund Accounting*

The government-wide financial statements, which are the statement of net assets and the statement of activities, report information of all of the nonfiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

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Notes to Financial Statements

June 30, 2009

Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Resources that are dedicated internally are reported as general revenues rather than program revenues.

The Authority uses funds to report on its financial position and the results of its operations in its fund financial statements. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purpose for which the resources are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and fiduciary funds. However, the fiduciary funds are not included in the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide statement of net assets as of June 30, 2009 reports restricted net assets of \$32,360,671, which is restricted by enabling legislation.

Governmental Funds

Governmental funds are those through which the governmental functions of the Authority are financed. The Authority's major funds are as follows:

Tourism Special Fund – The Tourism Special Fund (Tourism Fund) is used to account for functions related to the development and promotion of the tourism industry.

Convention Center Enterprise Special Fund – The Convention Center Enterprise Special Fund (Convention Center Fund) is used to account for functions related to the operation and management of the Center.

Fiduciary Fund

The Fiduciary Fund accounts for assets held by the Authority in a fiduciary capacity.

(c) Basis of Accounting

The government-wide statement of net assets and statement of activities are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included in the statement of net assets.

The modified accrual basis of accounting is followed for the governmental funds in the fund financial statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available). "Measurable" means the amounts are determinable. "Available" means the amounts are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers

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receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances in the fund financial statements and do not constitute expenditures or liabilities, because the commitments will generally be honored during the subsequent fiscal year.

(d) *Transient Accommodations Tax*

In accordance with Sections 201B-11 and 237D-6.5, Hawaii Revised Statutes (HRS), the primary source of funding for the Authority's Tourism Fund and Convention Center Fund operations is derived from 34.2% and 17.3%, respectively, of the total amount of transient accommodations tax (TAT) collected by the State. The TAT is assessed at a rate of 7.25% on the gross rental or gross rental proceeds derived from providing transient accommodations.

If the amount of TAT revenues deposited into the Convention Center Fund exceeds \$33,000,000 in any calendar year, revenues collected in excess of \$33,000,000 shall be deposited into the State's General Fund.

Of the total TAT revenues deposited into the Tourism Fund: the first \$1,000,000 is deposited to the DLNR; 0.5% is transferred to a subaccount in the Tourism Fund to provide funding for safety and security budget, in accordance with the Hawaii tourism strategic plan 2005 – 2015; and beginning July 1, 2007, funds shall be deposited into the tourism emergency trust fund, established in Section 201B-10, in a manner sufficient to maintain a fund balance of \$5,000,000 in the tourism emergency trust fund.

(e) *Investments*

Investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, based on quoted market prices.

(f) *Capital Assets*

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net assets. Capital assets acquired by purchase are recorded at cost. Donated fixed assets are valued at the estimated fair market value on the date received. Maintenance, repairs, minor replacements, and renewals are charged to operations as incurred. Major replacements, renewals, and betterments are capitalized. Capital assets are defined as assets with an initial individual cost of \$5,000 or more for furniture, fixtures, and equipment and \$100,000 or more for buildings and improvements and are depreciated on the straight-line method over the estimated useful lives of the respective assets (buildings and improvements – 30 years and furniture, fixtures,

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and equipment – 5 to 7 years). Depreciation is recorded on capital assets in the government-wide statement of activities.

(g) *Accrued Vacation*

Employees hired on or before July 1, 2001 earn vacation at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn vacation at rates ranging between one and two working days for each month of service, depending upon the employees' years of service and job classifications. Each employee is allowed to accumulate a maximum of 90 days of vacation as of the end of the calendar year. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements, or expected to be paid with expendable available financial resources.

(h) *Marketing Contractors*

The Authority contracts with the following five major marketing contractors to provide tourism, planning, implementation, and other services to assist the Authority in executing its marketing mission:

Hawaii Visitors and Convention Bureau – North America
Hawaii Tourism Japan – Japan
Mangum Management, GmbH – Europe
Macro Enterprises Limited, DBA Marketing Gardens – Other Asia
The Walshe Group – Australia and New Zealand

(i) *SMG Contract*

The Authority contracts with SMG, a private contractor, to manage and operate the Center. SMG is on a cost-reimbursement contract whereby it is reimbursed by the Authority for costs incurred in operating the Center. In accordance with Act 253, Session Laws of Hawaii 2002 (Act 253), SMG also assumed responsibility for the Center's sales and marketing efforts effective January 1, 2003. The Authority's contract with SMG extends through June 30, 2006 with two five-year option periods through June 30, 2016. In June 2005, the Authority approved SMG's option to extend the term of the agreement through June 30, 2011. The management fee for the year ended June 30, 2009 amounted to \$443,261.

(j) *Intrafund and Interfund Transactions*

Transfers of financial resources within the same fund are eliminated. Transfers from funds receiving revenues to funds through which the resources are to be expended and funds disbursed to fiduciary funds are recorded as transfers.

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(k) Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – General Fund, Tourism Fund, and Convention Center Fund are those estimates as compiled and reviewed by the Authority.

The final legally adopted budget in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – General Fund, Tourism Fund, and Convention Center Fund represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

Budgetary control is maintained at the appropriation line item level as established in the appropriations act. The governor is authorized to transfer appropriations within a state agency; however, transfers of appropriations between state agencies generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Authority. During the fiscal year ended June 30, 2009, there were no expenditures in excess of appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, General Fund and Tourism Fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse dates and any other contingencies, which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund, Tourism Fund, and Convention Center Fund are presented in the accompanying statement of revenues and expenditures – budget and actual (budgetary basis) – General Fund, Tourism Fund, and Convention Center Fund. The Authority's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) encumbrance of purchase orders and contract obligations and (2) accrued expenditures.

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A reconciliation of the budgetary to GAAP basis operating results of the General Fund, Tourism Fund, and Convention Center Fund for the fiscal year ended June 30, 2009 follows:

	Tourism Fund	Convention Center Fund
Excess (deficiency) of revenues over expenditures and other financing sources (uses) – budgetary basis	\$ 2,605,485	(4,281,044)
Reserved for encumbrances	23,604,637	—
Expenditures for liquidation of prior fiscal year encumbrances	(29,335,427)	(1,975,570)
Net accrued revenues and expenditures	79,830	(201,441)
Deficiency of revenues over expenditures and other financing sources (uses) – GAAP basis	\$ (3,045,475)	(6,458,055)

(3) Cash

(a) Cash in Bank

The Authority requires that the financial institutions pledge collateral based on the daily available bank balances. All securities pledged as collateral are held by the Authority's fiscal agents in the name of the Authority. At June 30, 2009, the Authority's deposits with the financial institution totaled \$14,924,799 (\$14,923,490 for the Governmental Funds and \$1,309 for the Fiduciary Fund), and had a corresponding bank balance of \$14,664,731.

(b) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2009, the entire amount of the Authority's bank balance of \$14,664,731 was fully collateralized. No balance was exposed to custodial credit risk resulting from uninsured and uncollateralized amounts.

(4) Investments

At June 30, 2009, the Authority had the following investments.

Investment type	Fund	Fair value	Maturity (in years)	
			Less than 1	1 – 5
U.S. agencies	Tourism Fund	\$ 9,200,290	1,945,678	7,254,612
U.S. agencies	Convention Center Fund	1,125,102	—	1,125,102
Total investments		\$ 10,325,392	1,945,678	8,379,714

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The Authority held \$4,998,691 in U.S. agency investments maturity in less than one year in a fiduciary capacity as of June 30, 2009.

(a) Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(b) Credit risk

The Authority follows the State's policy of limiting its investments to investments in state and U.S. Treasury securities, certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, bankers' acceptances, and money market funds.

(c) Custodial Risk

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Authority or the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's and the State's investments are held at broker/dealer firms that are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. In addition, excess-SIPC coverage is provided by the firms' insurance policies. In addition, the Authority and the State require the institutions to set aside, in safekeeping, certain types of securities to collateralize repurchase agreements. The Authority and the State monitor the market value of these securities and obtain additional collateral when appropriate.

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(5) Capital Assets

The following is a summary of changes in capital assets during the fiscal year ended June 30, 2009:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 131,496,508	—	—	131,496,508
Other capital assets:				
Buildings and improvements	207,800,999	1,351,822	—	209,152,821
Furniture, fixtures, and equipment	3,780,134	809,533	(143,779)	4,445,888
Total other capital assets	<u>211,581,133</u>	<u>2,161,355</u>	<u>(143,779)</u>	<u>213,598,709</u>
Less accumulated depreciation for:				
Buildings and improvements	79,935,726	6,949,230	—	86,884,956
Furniture, fixtures, and equipment	2,779,683	442,235	(143,779)	3,078,139
Total accumulated depreciation	<u>82,715,409</u>	<u>7,391,465</u>	<u>(143,779)</u>	<u>89,963,095</u>
Total other capital assets, net	<u>128,865,724</u>	<u>(5,230,110)</u>	<u>—</u>	<u>123,635,614</u>
Total capital assets, net	<u>\$ 260,362,232</u>	<u>(5,230,110)</u>	<u>—</u>	<u>255,132,122</u>

Depreciation expense charged to the Hawaii Convention Center management function amounted to \$7,391,465 for the fiscal year ended June 30, 2009.

(6) Other Assets

Other assets represent unspent funds held by SMG for emergency capital improvements, repair or maintenance purchases, and on various capital improvement projects. At June 30, 2009, unspent funds amounted to \$7,982,441.

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(7) Accrued Vacation

The following is a summary of changes in accrued vacation payable during the fiscal year ended June 30, 2009:

Balance at July 1, 2008	\$ 427,161
Additions	152,292
Deletions	<u>(171,913)</u>
Balance at June 30, 2009	407,540
Less current portion	<u>(113,052)</u>
	<u><u>\$ 294,488</u></u>

(8) Due to State Department of Budget and Finance

During the period from October 1992 through April 1998, the State issued a series of general obligation bonds whose proceeds were used to fund the construction of the Center. These bonds are obligations of the State and are secured by the State's full faith and credit. The debt service for the general obligation bonds is to be primarily funded by an allocated portion of the State's TAT revenue and revenue generated from the operation of the Center. Through June 30, 2000 and from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by the CCA and State Department of Budget and Finance (Budget and Finance), respectively.

Effective July 1, 2002, the Convention Center Fund was established by Act 253. In accordance with Act 253, the Convention Center Fund was placed within the Authority and was created to receive all revenues generated from the Center's operations and an allocated portion of the revenues received from the State's TAT. Act 253 further states that all funds collected by the Convention Center Fund are to be used to pay all expenses arising from the use and operation of the Center and to pay any and all debt service relating to the Center. However, responsibility for debt service payments to the bondholders on the general obligation bonds referred to above remains with the State through Budget and Finance.

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The creation of the Convention Center Fund provided the Authority the ability to reimburse Budget and Finance for debt service payments in accordance with a predetermined payment plan, which had been assigned to the Authority by the CCA. The terms of the payment plan require the Authority to reimburse Budget and Finance for principal and interest payments at an imputed interest rate of 6% through January 1, 2025. The Authority's ability to meet its obligations in accordance with the payment plan is dependent upon the funds received by the Convention Center Fund. At June 30, 2009, the outstanding principal and aggregate interest amounts required to be reimbursed by the Authority were \$267,085,288 and \$155,772,876, respectively. The scheduled payments to maturity for each of the next five years and thereafter in five-year increments are as follows:

	Principal	Interest	Total
2010	\$ 10,405,000	16,025,117	26,430,117
2011	11,030,000	15,400,817	26,430,817
2012	11,690,000	14,739,017	26,429,017
2013	12,390,000	14,037,617	26,427,617
2014	13,135,000	13,294,217	26,429,217
2015 – 2019	78,475,000	53,661,687	132,136,687
2020 – 2024	105,025,000	27,118,287	132,143,287
2025 – 2029	24,935,288	1,496,117	26,431,405
	\$ 267,085,288	155,772,876	422,858,164

For the year ended June 30, 2009, the Authority was required to reimburse Budget and Finance \$26,429,017 for principal and interest. For the year ended June 30, 2009, the Authority recorded \$16,319,567 of interest expense on debt obligation to the Budget and Finance in the statement of activities, as principal payments reduce long-term liabilities on the statement of net assets. At June 30, 2009, there was no unpaid matured principal due to Budget and Finance recorded as due to Budget and Finance in the accompanying governmental fund balance sheets. At June 30, 2009, the statement of net assets reflected the total long-term liabilities of the Authority as follows:

Matured interest	\$ 2,068,936
Unmatured current interest	8,012,559
Unmatured current principal	10,405,000
Current portion	20,486,495
Unmatured noncurrent principal	256,680,288
Total	\$ 277,166,783

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Total due to Budget and Finance activity during the year was as follows:

July 1, 2008	\$ 288,186,795
Additions	16,319,567
Reductions	<u>(27,339,579)</u>
June 30, 2009	\$ <u>277,166,783</u>

As noted above, effective July 1, 2002, Act 253 established the Convention Center Fund, which provided the Authority the ability to reimburse Budget and Finance for debt service payments with funds from the Center's operations and an allocated portion of the State's TAT. During the period from July 1, 2000 to June 30, 2002, these funds were collected and accounted for by Budget and Finance since the statutes did not allow the Authority to do so.

Subsequent to June 30, 2005, Budget and Finance informed the Authority that it is required to meet the debt service obligations on the bonds for the period from July 1, 2000 to June 30, 2002. The Authority does not believe it is required to meet these obligations for periods prior to the establishment of the Convention Center Fund, and accordingly, has not recorded this liability in its financial statements. If the Authority does not prevail, its liability to the State Department of Budget and Finance would increase by \$52,872,964, consisting of principal and interest of \$12,690,000 and \$40,182,964, respectively, at June 30, 2009. If the State does not provide the Authority with an allocation of the TAT revenue to cover this liability, the amount of the liability will be charged against the Authority's net assets.

(9) Employee Benefits

(a) *Employees' Retirement System of the State of Hawaii*

All eligible employees of the Authority are required by Chapter 88, HRS, to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor, and disability benefits with multiple benefit structures known as the contributory, hybrid, and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plan were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage (1.25% or 2.00%) multiplied by the average final compensation (AFC) multiplied by years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding

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the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

For postretirement increases, every retiree's original retirement allowance is increased by 2.5% on each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.).

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

Contributory Plan

Employees in the contributory plan are required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Under the contributory plan, employees may retire with full benefits at age 55 and 5 years credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

Hybrid Plan

Employees in the hybrid plan are required to contribute 6% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2%.

Noncontributory Plan

Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The Authority is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited services or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

The ERS' funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. Employers contribute 15.75% for police officers and firefighters and 13.75% for all other employees. These rates increased, as of July 1, 2008, to 19.70% for police officers and firefighters and 15.00% for all other employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

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The required pension contributions by the Authority for the years ended June 30, 2009, 2008, and 2007 were \$240,000, \$205,000, and \$204,000, respectively, which equal the required contributions for each year. Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the Authority.

The ERS issues a comprehensive annual financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, HI 96813

(b) *Postemployment Healthcare and Life Insurance Benefits*

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87A, is a participating employer in a cost-sharing, multiple-employer defined benefit plan providing certain healthcare and life insurance benefits to all qualified employees and retirees. The Employer-Union Health Benefits Trust Fund (EUTF) was established on July 1, 2003 to design, provide, and administer medical, prescription, drug, dental, vision, chiropractic, dual-coverage medical and prescription, and group life benefits.

For employees hired before July 1, 1996, the State pays the entire monthly healthcare premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of credited service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of credited service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of credited service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with over 25 years of credited service, the State pays the entire healthcare premium.

For employees hired after June 30, 2001, and who retire with fewer than 10 years of credited service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of credited service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self-plan. For employees hired after June 30, 2001, and who retire with at least 15 years but fewer than 25 years of credited service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium, for those retiring with over 25 years of credited service, the State pays the entire healthcare premium.

For active employees, the employee's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

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Measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2009 was \$141,643, which represented 36% of the Authority's share of the ARC for postemployment healthcare and life insurance benefits of \$392,609.

The following is a summary of changes in postemployment liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	\$	214,329
Additions		392,609
Deletions		<u>(141,643)</u>
Balance at June 30, 2009		465,295
Less current portion		<u>168,000</u>
	\$	<u><u>297,295</u></u>

The EUTF issues a financial report that includes financial statements and required supplementary information, which may be obtained from the following address:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, HI 96805 – 2121

(10) Commitments and Contingencies

(a) Accumulated Sick Leave

Employees hired on or before July 1, 2001 earn sick leave credits at the rate of one and three-quarters working days for each month of service. Employees hired after July 1, 2001 earn sick leave credit at the rate of one and one-quarter or one and three-quarters working days for each month of service depending upon the employees' years of service and job classification. Sick leave credits may accumulate without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2009, accumulated sick leave approximated \$821,288 for the Authority.

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(b) *Deferred Compensation Plan*

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.